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10 Adelaide Street East, Toronto

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*(The opinions expressed in articles in The Canadian Chartered Accountant are the opinions of the writers of the articles and are not necessarily endorsed by the Association).*

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## Editorial Comment

The annual examination results of several *New Members* of the provincial Institutes have been announced in recent issues. We offer congratulations to the successful candidates, and we welcome into the profession in Canada those who have passed the final examination and have been admitted to membership in the provincial Societies. New recruits are a benefit to any organization, and the accountancy profession is the richer in talent and in the possibilities of greater service by the annual influx of young people with a fresh outlook and with the enthusiasm and the will to perform successfully the tasks to which they have set their minds.

The period of preparation in our profession is long. All too many who have studied hard to pass the examinations of the Institutes regard their education as completed after receiving their diploma, when in truth they have at this stage only begun to qualify as accountants. Would that it could be impressed on each graduate that the wilderness of mediocrity can be the only prospect in his professional career unless he resolves to continue his studies and to preserve an inquiring mind! That resolution is preliminary to any worthwhile contribution which he may hope to make to the profession. The taking of a definite stand in this

regard is hard; the performance is still more difficult. In the journey of life obstacles will be encountered; there will be dark days—yet happily there come bright ones. Every member of the profession has had his ups and downs, and it has often occurred to us that the experiences of some of our older members, if told in these pages, would be not only of interest to readers but would serve greatly to encourage the young members and to increase their determination to succeed. From our conversations with them we know that they could recount numerous instances where the successful meeting of obstacles became the turning-point in the road to their advancement and success. Let us say to our new members, then, difficult problems will ever arise and should be welcomed not shunned. Perseverance brings its rewards. All winners can tell of that indescribable feeling of satisfaction that comes with accomplishment; it is the feeling that prompts members of long experience to voice with earnestness those choice words of the "for-esters" of Arden, "Sweet are the uses of adversity."

Our profession, like any other profession, offers to every member just what he permits it to offer. Whatever success may come will be measured by the extent to which he has permitted a lofty ambition to be realized and by the motives or principles underlying his actions. If he is content to regard his calling as merely a remunerative post, his outlook becomes narrow indeed and he stands to miss the satisfaction and pride which fill the soul of him who makes his work part of his being. As a happy application of this thought, perhaps we may be pardoned for referring to that striking passage in Cronin's recent book, *The Citadel*. The earnest young doctor was nearing the end of a *viva voce* examination of the Medical Board and had conducted himself creditably and with some degree of distinction. As a final question he was asked what he regarded as the main principle or basic idea which he kept before him in practising his profession. After some reflection the answer came, "I suppose I keep telling myself never to take anything for granted." "Had he told me," stated the examiner afterwards, "that he went about trying to heal people, trying to help suffering humanity, I'd have flunked him out of sheer disappointment." For that genuine interest in research the student received the maximum marks.

*Is There  
Overcrowding?*

The fact that the total membership of Institutes is increasing by approximately 125 new members each year might perhaps give rise to the question as to whether or not the profession is becoming overcrowded. While no definite answer can be given it may nevertheless be said that no marked evidence of overcrowding is apparent. The reports of the Institutes presented at the last annual meeting of our Association, however, are instructive. The total membership at 31st May last was 2086; of these 1348 were in public practice, while the remainder, with the exception of 26 retired members, were in executive and other administrative positions. That is, 65.4 per cent. of the active membership was practising the profession, while 34.6 per cent. was in various positions of responsibility.

It is of interest and of some significance to note that the percentage of members in administrative positions has shown a tendency to increase each year, for in 1935 the corresponding percentage was 31 per cent. and in 1936, 32.8 per cent. There are good reasons for believing that an increasing number of members each year will enter posts for which their special training qualifies them. The public taxing bodies, for instance, are increasing rather than decreasing, and for economical administration of their departments they need assistants with expert knowledge of accounts and an understanding of the proper application of the taxing provisions of the statutes. Who, we ask, is better prepared for these duties than the graduates of the provincial Institutes? Moreover, their close association with all phases of business and their intimate knowledge of accounts and all that financial statements and statistics can reveal mark the members of the profession as being eminently fitted for prominent positions in industry. It may be safely assumed that a fair number of each year's graduating class will be drawn into commercial positions.

*Profession in  
Great Britain*

From time to time we publish in these pages the examination results of the Institute of Chartered Accountants in England and Wales and of the Society of Incorporated Accountants and Auditors in Great Britain. As the pass lists have always shown a considerable number of new members, most of us in this country have the impres-

sion that the profession in Great Britain is becoming overcrowded. The references to the profession in the Old Land made recently by the Presidents of these two great accounting bodies, then, are enlightening. Instead of the profession receiving more members than can be absorbed, a situation directly opposite is discernible there. In his address at the 1937 autumnal meeting of the Institute of Chartered Accountants in England and Wales, the President, observing that each profession in turn becomes overcrowded, stated that his own had suffered less in this respect than some of the others. This, in his opinion, was largely due to the expansion in the nature of business undertaken by accountants and entrusted to them, and was also due "to the title of chartered accountant being the recognized stepping-stone to many appointments outside professional practice."

In an address at a recent district meeting of his Society, the President of the Society of Incorporated Accountants and Auditors in Great Britain made the observation that since 1931 there had been a slow but steady decline in the number of clerks articulated to members of his Society and the same tendency had been revealed by the statistics of the other accountancy bodies in Great Britain. As there had also been a decline in the number of candidates for the examinations, these two facts taken together appeared to indicate that the rate of numerical expansion in membership of the accountancy profession would be slower in the future than it had been in the past. He referred also to the decline in recruits in all the other professions. This was due in large measure to the fact that industry and commerce could offer greater advantages without the sacrifices which are inseparable from service under articles. "But," the President added, "long views are necessary when choosing careers, and the decline in numbers now may well improve the future prospects of those who are willing to 'scorn delights and live laborious days,' in the pursuit of a professional qualification."

*Appraisal for  
Depreciation*

Among the summaries of court judgments published in our January issue was that of the Exchequer Court of Canada in an appeal against the disallowance by the Minister of National Revenue of depreciation on the cost to



the appellant of certain plant and other fixed assets which had been acquired by it for a consideration in cash and shares at amounts considerably in excess of the figure at which these assets stood in the books of the predecessor company. It is not our purpose to refer to the several matters dealt with by Mr. Justice Angers in that judgment; but in view of the inquiries reaching us regarding the observation that "depreciation must be estimated on the real value" of the assets not on their cost to the taxpayer we feel that further reference thereto is necessary.

The judgment is of considerable interest to members of the profession.\* The circumstances in the case were unusual, and it may very well be said that the judgment should be read in the light of those circumstances and not applied in a broad and general way.

A perplexing part of the judgment so far as accountants are concerned is the reference to an appraisal of the assets "to establish their value." The inference is that had an appraisal been made the appellant would have been entitled to depreciation on such values. While there is no suggestion that a valuation should be made periodically, the adoption of such a practice in respect of capital assets for tax purposes would be revolutionary. For instance, in cases where the assets had a value less than book value, depreciation would still have to be written off book value notwithstanding that the allowance for tax purposes, based on valuation, should be much less. Conversely, where the valuation was more than the book value the allowance thus obtainable for tax purposes would be greater than any necessary provision for depreciation.

*Depreciation  
And the  
Accounting  
Period*

Because of its derivation from the Latin word meaning price, the term depreciation in accounting terminology is frequently misunderstood. If one will visualize the commercial venture of English colonial days, a simple illustration is afforded of its application. For such a venture there was a stock of salable goods; supplies and provisions for the voyage had to be provided, and a sailing craft purchased. With the merchan-

\*A copy of the full judgment in the Pioneer Laundry and Dry Cleaners Limited Case has been sent by us to the reference library of each provincial Institute.

dise sold and the voyage over, the excess provisions, if any, were disposed of, the craft was sold, and the net proceeds of the venture distributed. The difference between the cost of the craft and its selling price as scrap represented depreciation, and was just as much a part of the cost of the venture as were the merchandise and the provisions.

The cause of many mistaken ideas about depreciation can undoubtedly be laid at the door of the present-day system of fiscal periods. Though the trading transaction just mentioned may have extended over one, two or more years, no division of time was considered necessary in the determination of profits. And it is safe to say that because of the modest extent of their dealings, the individual trader and the partnership of years ago seldom concerned themselves with an annual "check-up" of their business. The advent of the modern complex industrial system, however, brought a change. The introduction of a fixed accounting period followed as a natural consequence of the rise and rapid growth of the incorporated company. With the increase in numbers of small investors during the past century and the widespread holding of industrial securities, the call of shareholders for periodic dividends made necessary some regular time for "stock-taking," and this encouraged the use of a more definite period of trading—namely, the fiscal year. And it must not be forgotten that in recent decades the tax authorities, who are dipping more deeply each year into company revenues, have made necessary the adoption of a yearly accounting period.

*Fixed Assets*      The term depreciation as employed commercially is associated with the fixed or capital assets of a business. Today a concern makes expenditures in one fiscal period with the definite purpose of producing profits in future periods. How should such outlays be dealt with in its accounts? That is the central problem of financial accounting; it has forced upon industry a study of the proper allocation of these expenditures to the periods concerned, and a scientific treatment of the depreciation of the fixed or working assets.

It should be kept in mind, then, that these particular assets are acquired for the purpose of earning income, not for the object of sale, and that consequently their value is seldom of importance except when they cease to be of

use. During the process of earning income there is an exhaustion of their useful life and this "hole" in them, as one author describes it, is known as depreciation. Unfortunately the term becomes confused with fluctuation in value. It should not be so, for depreciation is permanent and fluctuation is temporary. The latter term applies to the variations in market value of articles held for sale, the former is only applicable to assets in which waste is inherent. The accounting function in relation to these fixed assets is, as Mr. George O. May expresses it, "to measure and record not the fluctuations in their value but the extent to which their usefulness is being exhausted through age or use, and to make proper charges against income in respect of such exhaustion, based on the cost of the property exhausted, with the intent that the property shall stand on the books at its salvage value when the term of its usefulness is ended."\*

From this explanation of the function of fixed assets, it should be quite clear that such assets are to be recorded on the books at cost. No useful purpose would be served by attempting to determine their value or selling price, inasmuch as any valuation at best is only a guess, one valuer's estimate being as good as another's though both may be widely different.

*Depreciation  
A Part  
of Cost*

Since depreciation arises through the employment of fixed assets in producing revenue, depreciation is a part of the cost of production and must be charged against the revenue of the period before any true estimate of profit can be determined. The published statements of many corporations show depreciation as an appropriation of profits; this is apt to be misleading as it seems to imply that profits can be ascertained before calculating depreciation when in reality depreciation is a condition precedent to the ascertainment of profits.

\*George Oliver May, *Twenty-Five Years of Accounting Responsibility, 1911-36*, Volume II, p. 310.

## ACCOUNTING FOR AN INTERURBAN MOTOR COACH COMPANY

By Harold S. Moffet, B.Acc., Chartered Accountant,  
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[*Editor's Note:* In "The 1937 Essay Competition" sponsored by *The Canadian Chartered Accountant*, Mr. Moffet's essay was awarded the First Prize of fifty dollars].

**T**HE business of an interurban motor coach company, engaged in the transportation of passengers and express for hire, as a common carrier, may be divided into the following departments: 1. Operating, 2. Maintenance, 3. Traffic and sales promotion, 4. Sales and agencies, and 5. Audit.

These are the departmental divisions one should expect to find in an interurban motor coach company of moderate size, operating under average conditions. In a smaller business one department would probably carry on the functions of two or more of the departments mentioned, while in a larger operation, or one with comparatively small route mileage but in a thickly populated area, the business would be subject to greater departmentalization.

Superior in authority to the departmental managers in most businesses of this kind is an individual or group of individuals whose duty it is to formulate and guide the policies of the business, and to coördinate the activities of the various departments. In the case of the private enterprise these functions will be carried on by the owner, in the partnership by the partners, and in the limited liability company by the shareholders, board of directors and executive officers.

**Operating Department**—The function of this department is to carry on the actual service to the public. Its personnel consists of coach drivers, dispatchers and stewards, and is under the direct supervision of the Operating Superintendent.

**Maintenance Department**—It is for this department to keep the coaches in good repair and in good operating condition. To this end it will maintain one or more garages where equipment is regularly serviced, inspected and overhauled. Its staff is made up of mechanics, metal-workers,

electricians, greasers and washers, supervised by mechanical foremen and responsible to the Mechanical Superintendent.

**Traffic and Sales Promotion**—It is customary for the work of advertising and sales promotion to come under the supervision of the Traffic Manager who is also responsible for the preparation of tariffs of passenger fares and express rates, timetables, and all similar literature for circulation to the public, the company's agents and connecting carriers. It is also the duty of this department to analyze operating and revenue statements prepared by the audit department with a view to revising schedules, improving connections and to generally arranging the services to the best advantage, both from the standpoint of public service and profits to the organization. The department must be constantly on the alert to public demands for service, and must watch for opportunities to provide additional schedules and lines where this may be done on a profitable basis.

**Sales and Agencies Department**—This department, under the supervision of the General Passenger Agent, is responsible for the operation and maintenance of terminals, depots and ticket agencies and their personnel. Any of these three types of sales agencies may be operated on a commission or salary basis under the direct supervision of the central office of the company, or indirectly through the appointment of a local manager or local passenger agent. Depots range from metropolitan terminals to small agencies in which the agent is engaged in some other line of business such as a hotel or restaurant, and sells tickets on a straight commission and on a part time basis.

**Audit Department**—The duties of the audit department may be classified under the following headings:

1. Keeping the general accounting records
  - (a) Accounting for cash and revenues
  - (b) Accounting for expenses and disbursements
  - (c) Accounting for assets and liabilities
  - (d) Preparation of financial statements.
2. Internal audit of
  - (a) Local tickets
  - (b) Interline tickets
  - (c) Other operators' tickets
  - (d) Revenues
  - (e) Disbursements.

While in most businesses the work of the accounting department is composed chiefly of the duties outlined in the first group, in the bus industry the second group makes up the greater part of the actual work and requires the larger portion of the staff. It is probably for this reason, and due to the fact that this, the second group, consists mainly of a type of work generally done by an auditor rather than an accountant, that the department is known as the audit department, and its supervisor is known as the Auditor of the business. The accounting of this industry does not differ greatly in methods from that of others, although a few unusual accounts appear and will bear some explanation.

Revenue is derived mainly from:

1. Tickets sold to passengers for transportation over the lines of the company
2. Tickets sold by other operators and honoured for transportation over the company's lines
3. Commission earned on sale of tickets for transportation over the lines of other companies
4. Mail contracts and express charges
5. Sundry revenue — depot revenue, depot concessions, and advertising space in busses and terminals.

Ticket sales by terminals, depots and agencies are reported daily, weekly or monthly to head office, and the proceeds are remitted by check, money order or by deposit to the credit of the company in a local bank account, later to be transferred. Ticket sales by drivers are reported on their trip reports along with a record of tickets which they have honoured. Tickets may be sold for transportation of passengers over the lines of other companies. Such tickets, known as "interline tickets," are usually prepared in such a way as to provide a tear or coupon for each company over whose lines the passenger travels, and each coupon will carry information indicating the names of points between which it is good for transportation, and also the origin, destination, total fare paid, date of sale, expiry date, and whether the total fare represents the "one-way," "return," or "excursion" fare between origin and destination.

All accounting information necessary for the records of the audit department is taken from the last coupon of each

ticket, known as the "agent's stub." This coupon carries a summary of all information contained on the ticket itself.

It will be seen that in selling an interline ticket, the selling company receives revenue for transportation to the end of its own lines, and from that point on incurs a liability for "Interline tickets outstanding" until the ticket is honoured by another carrier. The carrier honouring such a ticket values it for the portion of the fare applying between the points where it was honoured, and invoices the issuing company for its value. Then this liability becomes an account payable to an "Other operator."

In selling any ticket, whether "one-way," "return" or "excursion" on the one hand, and whether "local" or "interline" on the other, the company, strictly speaking, immediately incurs a direct liability, as tickets are subject to refund in full if not used or, if partly used, are subject to refund on the unused portion. For this reason some companies credit the proceeds of all ticket sales to a liability account known as "Tickets outstanding" until they are either used for transportation over the company's own lines when the proceeds are transferred to revenue account, or they are honoured by another carrier, when they become an account payable, or, they are refunded to the purchaser, in which case the liability is removed.

Most operators, however, credit revenue account directly with the proceeds of local ticket sales and set up the liability only for the portion of tickets to be used over the lines of other companies. Under this method it is necessary to remove from revenue and set up a liability for local tickets outstanding at the end of a financial period.

There is a certain amount of shrinkage in the liability for tickets outstanding and through past experience it has been found that after tickets have been outstanding a certain length of time it is reasonably safe to write them off as lost or destroyed. Just when this may be done is best determined from experience, and, as far as local tickets are concerned, will depend partly on the extent of the operations of the company. As an additional precaution it is advisable to carry such tickets in a "Reserve for outstanding tickets" account for an additional period of from six months to a year after they have been removed from the current liability account.



For most operations, tickets may be removed from current liabilities after the following periods have elapsed:

Local tickets	- - - One way	thirty days
	- - - Return	sixty days
Interline tickets	- - - One way	four months
	- - - Return	seven months.

Tickets of other companies honoured over the lines of the company are picked up by drivers, punched and reported on and enclosed with their trip reports to the audit department. They are then checked and valued by audit clerks and invoiced to the issuing companies either monthly or twice monthly. It is customary to allow the issuing company a commission of ten per cent. for selling the ticket.

The liability for tickets sold over the lines of other companies is set up for the full sale price applying beyond the company's own lines. When these tickets are invoiced to the selling company by the companies honouring them, ten per cent. is deducted from the total of the invoice. As these invoices are posted after being checked, the gross amount is removed from the liability for "Interline tickets outstanding," the commission is credited to revenue and the net amount is credited to the other operator.

Charges for carrying mail will be based on the terms of the contract with the postal department and the method of handling this revenue will also depend on the contract.

Waybills are prepared covering each express shipment with sufficient copies to provide one to be sent to head office by the agent at the origin of the shipment, one to be signed by the consignee and returned to head office by the agent at the receiving point, usually one to be retained by the sending agent and one to be given as a receipt to the shipper, if charges are prepaid, or to the consignee if charges are collect. Charges are remitted to head office by the sending agent, or the receiving agent, depending on whether the shipment is "Prepaid" or "Collect."

Depot revenue consists of baggage checking and storage fees, commission on telephone pay stations, telegraph agencies, travellers' insurance agencies, etc. These revenues are recorded from reports from the employees responsible for the services and periodic returns made by the telephone and telegraph companies.

Concessions are usually sub-let on either a percentage

or straight rental basis and advertising space in busses and terminals is let on contract to advertisers.

The accounting for expenses and disbursements presents no special problems although expenses are perhaps subject to an unusual degree of analysis.

Where possible, supplies are purchased by a central purchasing department, but it is necessary for drivers to purchase supplies and services along routes. For this purpose drivers are supplied with requisition forms, one copy of which is given to the party supplying the goods or services and the other copy is given to the operating superintendent for approval and then to the audit department as authority for the disbursement if paid in cash, or authority for passing an invoice for payment if the account is charged.

Drivers are usually paid by the mile and their payroll mileage is taken from reports by them covering each trip made. Agents are usually paid commission on their sales and such commission is deducted from their remittances. All other employees, in offices, garages, terminals and elsewhere are paid by cheque or in cash on the basis of hourly, daily, weekly or monthly rates, authorized by the head of the department and approved by an executive officer.

The only asset or liability accounts requiring any unusual treatment other than those explained elsewhere in the course of this discussion, are those of "Bus equipment" and its related account "Reserve for depreciation of bus equipment."

This asset account should be charged only with the original cost of each coach purchased, including the cost of transportation to or driving it to the company's premises. Finance charges on the original purchase are an expense and should be treated as such. The correctness of this treatment is evident when the alternative of capitalizing these charges is considered. If capitalized, the periodic charges for depreciation, which is an operating expense, will include a portion of the finance charges, and such an item has no place among the operating expenses. The only items to be capitalized beyond the cash price of the unit laid down on the company's premises are such additional devices and accessories, the purchase of which is made necessary by law, or which constitute an actual betterment of the unit, provided they are permanently attached to it. Such

additions should then be depreciated over the remaining life of the unit.

While in theory the ideal method of providing for depreciation of bus equipment would appear to be that of a mileage rate based on the expected mileage of the unit at the time of purchase, in practice there are so many obstacles to its application that it is impracticable. The other method, and the most satisfactory in actual use, is the straight line method. By this system sufficient depreciation is provided monthly or annually to write off completely the cost of equipment over its life expected at the time of its purchase. This period will be four, five or six years, depending on the type and size of equipment, and the operating conditions to which it is subjected.

Interim and annual financial statements give rise to no problems peculiar to this industry, but will consist of balance sheet, statement of profit and loss, and statement of surplus with supporting schedules.

**Audit of Local Tickets**—Before going into the audit of different types of tickets it might be well to cover some points which are common to all types. It must be recognized that tickets are valuable documents until such time as they are cancelled, and must be accounted for as carefully as cash. True, anyone obtaining them in some fraudulent way and wishing to turn them to his advantage would have to do so very carefully, but in the meantime he would cause a great amount of trouble and inconvenience as well as financial loss to the company whose rightful property they were.

Tickets should be purchased only from reputable printing houses whose integrity is beyond question. At the time they are received numbers should be checked and entered in numerical order in the "Ticket audit record." This record is drawn up in columnar form with space for: ticket number, sale value, and a space to be checked as the tickets are reported used. At the head of each such group of columns is a space to record the location of the ticket numbers listed below. This space remains blank until a book of tickets is removed from the master ticket stock, at which time the name of the agent receiving the book is inserted. In this way the master ticket stock consists of all tickets received from printers and not assigned to any agent. Sim-

ilarly the agent whose name appears at the top of a list of tickets is responsible for these numbers.

Tickets should be sent to agents only on receipt of a properly signed requisition and the custodian of the master stock should obtain a receipt for tickets given out to be kept on file by him.

As tickets are reported sold by agents on their reports, the sale value is recorded in the proper column of the ticket audit record. Then as these coupons are honoured by drivers and are sent to the audit department with their trip reports, the coupons are checked against the record, first as a check on the agent to see that the fare reported agrees with that shown on the passenger's portion of the ticket, and then the record is marked indicating that the ticket has been used and cancelled. In the case of one-way tickets the coupons have only to be checked against the record once, while in the case of return tickets or local tickets of more than one tear, each coupon must be checked so that the record will at all times be a complete list of tickets sold but not used, and on which a liability to the public exists.

**Audit of Interline Tickets Sold**—In the case of interline tickets it is also necessary to keep a control of them through the ticket audit record to ensure that agents are selling them in numerical order and that no numbers are missed and also to place responsibility for tickets. As in the case of local tickets this record will indicate the liability to the public for the unused portion of interline tickets calling for transportation over the company's own lines.

As previously explained, interline tickets are made of at least as many tears as there are companies over whose lines the passenger wishes to travel. Indeed, in some cases, for a variety of reasons, known only to the expert ticket salesman, it is often necessary to provide two or more coupons to carry a passenger over the lines of one company. Thus an interline ticket may consist of from one to twenty, or even more coupons. Also it must be borne in mind that the sale price of each ticket of this kind is made up of two parts—the revenue to the issuing company, and the liability credited to "Interline tickets outstanding." Each tear or coupon, when it is honoured by another operator, will be invoiced for the value of that coupon to the issuing company for payment.

To record this liability in total, and as it applies to each ticket, it is necessary to keep an "Interline ticket record." There are two common forms which this record takes. One is a columnar book with columns for: ticket number, date of sale, origin, destination, total credit set up for other operators, and several columns for the amounts allowed other operators on invoices or "Reclaims" and at the extreme right two columns for over and short adjustments when all coupons are accounted for. In this way at any time the total balances appearing on all tickets outstanding will equal the liability as shown in the control account in the general ledger.

The other form in common use is, in reality, a card ledger. A space is provided on the agent's stub of the ticket, which becomes the ledger card, to carry the same information as is shown in the columnar record, but in a two column ledger form, one column for debits the other for the balance outstanding. The credit for the liability on the ticket is set up and as coupons are reclaimed they are entered, and the new balance extended.

**Audit of Other Operators' Tickets**—The audit of tickets of other operators is a large subject, involving many problems of traffic which cannot be discussed here, as space will permit only a bare outline of the strictly accounting and auditing features.

The coupons of tickets issued by other operators honoured for passage over the lines of the company are picked up by drivers, punched and turned in to the audit department with the drivers' trip reports. These coupons are valued and charged to a suspense account, "Tickets of other operators," and credited to revenue, using the trip report as the voucher for the original entry. The coupons are then sorted according to the names of issuing companies to be invoiced to them either monthly or semi-monthly, deducting 10% from the total of each invoice.

When invoicing is completed, the gross amount of the invoices is credited to "Tickets of other operators," the commission is charged to the appropriate expense account and the net amounts are charged to the accounts of the issuing companies. In this way the account, "Tickets of other operators," is balanced at the end of each invoicing period.

**Audit of Revenues**—The audit of revenues involves the allocating of operating revenue to schedules where it is actually earned. Through the information thus derived it is possible to determine the revenue earned on each schedule operated by the company. Dividing into the figures so obtained, the actual bus miles operated on the respective schedules, the revenue per mile is obtained. The revenue per mile when compared with the expense per mile, will indicate whether or not a schedule is profitable, and by comparing results of various periods the progress of each schedule can be determined.

Revenue figures are based on drivers' trip reports. Values are assigned to each ticket honoured and totalled on the drivers' trip report. This information is recapitulated weekly, monthly, or in ten day periods for each schedule operated.

**Audit of Expenses**—The analysis of expenses should be so arranged as to group expenses according to the various departments of the business so that for any given period it can be determined what portion of the total expense can be attributed to each. As in the revenues, the bus mile is used as the common denominator for all comparisons. The direct expenses of operating and maintaining the fleet are further analyzed by allocating them to the various busses making up the fleet. Direct expenses are charged to the individual busses, and indirect items are spread over the fleet in proportion to direct costs, or miles operated. In this way it is possible to know the cost of parts, labour, gasoline, oil, etc., involved in the operation of each bus. These costs reduced to a mileage basis, and compared to those of other units in the fleet are of value to the management in determining which types of equipment are most economical, and when units should be replaced; and indicate to the maintenance superintendent whether proper service methods are employed and whether they are being applied to all units at proper intervals with satisfactory results.

The procedure of handling the individual records and accounts cannot be covered in a paper of this kind, since it varies between different companies depending on the size of the business, both in volume of business done and the extent of operations, as well as other characteristics and legal regulations under which the company operates.

Nor is it possible to give a complete outline of all the accounts, but an attempt has been made to explain those features not found in other businesses, giving only sufficient general information to show the inter-relation of those features.

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### MUNICIPAL FINANCE\*

By J. A. Towner, Chartered Accountant,  
Quebec, P.Q.

NEED I say at the very beginning, that it was a great pleasure for me to accept the invitation of your Chairman, Colonel Rosaire Samson, whom I have known for many years, to give this lecture on Municipal Finance.

This subject, as you all know, has become quite important during the last few years and more particularly perhaps since the declaration of default of certain municipal and school corporations in this country.

Many associations have been formed for various purposes, such as uniting to protect the interests of the small property owners, coöperating with the local authorities, and so forth.

The present talk is confined to a limited field compared to the wide scope which its title would involve. In speaking of municipal finance, I refer not only to the corporation itself, which has legal status in a municipality, but the territory itself, which is called the municipality.

#### Supervision

In all the civilized world certain actions of the various municipalities are under the control of a central body. In the Province of Quebec the legal aspects of certain resolutions and by-laws passed by the different municipalities come under the jurisdiction of the Department of Municipal Affairs, Trade and Commerce, while the financial questions come under the supervision of the Quebec Municipal Commission.

There is no "believe or die" policy, either with the Department or with the Quebec Municipal Commission. If

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\*An address given at a meeting of the Rotary Club of Sherbrooke on 11th January 1938.



we think fit to disapprove of a certain measure proposed by a municipality, we feel that we ought to be able to convince the interested authorities that our opinion is correct. In fact, we are unable to understand why two persons equally well informed cannot agree in finding the best solution to any problem if it is tackled with an open mind by both parties concerned.

### Financial Reports

One of the constant efforts of the Quebec Municipal Commission is to improve the methods of reporting municipal financial operations to the interested parties. There is at present a strong tendency to have a uniform classification of municipal accounts in the whole Dominion with uniform municipal financial statements prepared annually by all municipal corporations. I regret to say that, as far as I know, there is no country in the world where such a move has ever been entirely successful—even in England where everything pertaining to accountancy and statistics receives the greatest care and attention. I remember having read a quotation, by an English author, concerning uniformity as a whole which stated in part that "uniformity in governments has created nothing yet in many nations; it has checked creative thought as though it were a social evil."

To this end I accepted appointment as a member of a continuing sub-committee of three, formed for the purpose of initiating uniform municipal financial statements to be used by all municipalities in this country. This sub-committee was appointed originally at a Dominion Inter-provincial meeting held last summer in Ottawa. Our committee is now working at the solution of this problem, and all municipal directors of finance and treasurers will sooner or later receive communications from us concerning the matter. If there are many disadvantages to uniformity, we must admit that there are also many advantages to its use in the municipal field.

The financial statements are intended for different groups which may be summarized as follows:

Mayors and aldermen,  
Ratepayers,  
Bankers and bondholders,  
Municipal officers.

As it is now in most cases, the municipal accounts vary not only between different municipalities but also with the same corporation from year to year.

Knowing the various advantages resulting from a comparative financial statement, you will agree that if no comparison can be made between the financial statements of the same corporation year by year great advantages are lost. Moreover, no one can obtain the proper meaning of the figures shown on any financial report unless the different accounts are fully defined. The members of a Council cannot assure themselves that their instructions have been strictly carried out by the officers unless a classification of accounts is controlled by them; the ratepayers cannot satisfy themselves as to the use of the moneys that they have paid to the treasurer; and, what is very important, the bond dealers cannot make a complete and comprehensive study of the financial situation of any municipal corporation unless they can compare its financial statements for a certain period of years.

Everyone conversant with municipal bond markets will agree that the new method of reporting the municipal financial operations will mean a reduction in the rate of interest at the time of the issue of municipal bonds; in other words, whatever money a municipal council invests for the improvement of its accounting system and method of reporting, is always repaid many times to the municipal treasury.

This fact is being recognized now more than ever before and this is the reason why I am of the opinion that an effort ought to be made to arrive at a uniform system of municipal accounts in this country. Such municipal accounts would, of course, be based on a terminology which would have to be adopted by all interested local authorities. The Quebec Municipal Commission will supervise the translation of this terminology.

The present financial statements do away with the old cash statements which have so often been used to mislead the public. How often has it happened that municipalities were creating what they called a "surplus" by simply borrowing money on the eve of the last financial day. Any administration could have done the same thing to induce the public to believe that it had wisely administered the affairs of the corporation during its term of office—the ratepayers being misled from year to year until the time came

when they finally realized that the municipal debt, both funded and temporary, had increased to an incredible figure.

### **Statement of Revenues and Expenditures**

The financial reports are now on an accrual basis and instead of submitting detailed statements of cash receipts and disbursements, as in the past, the statement of receipts and disbursements is limited to detailed cash receipts while the disbursements are shown in a lump sum for the whole period.

On the other hand, the financial reports today include a statement of revenues and expenditures which is nothing more than the regular statement of profit and loss to the people of the commercial world. This statement of revenues and expenditures shows the actual results of the financial operations of a certain municipality for a fixed period of time, which is generally a fiscal year.

The items shown on the budget approved at the beginning of the year are, as you know, estimated both for revenues and expenditures while the figures shown on the statement of revenues and expenditures are the actual figures. So if you show, on the same statement, the figures appearing on the budget and the ones appearing on the statement of revenues and expenditures, you will readily see the differences between the amounts estimated and the actual results.

This statement of revenues and expenditures is then used as a basis for the preparation of the budget for the year to come after taking into consideration the special works to be undertaken during the same period. This new form of statement will inform the members of the council and the ratepayers as to the use of the sums levied by the administrative officials.

### **Balance Sheet**

Those having anything to do with municipal corporations must have noticed the recent change in municipal balance sheets. The old form was a consolidated balance sheet and included all the assets of whatever nature on the debit side and all the liabilities on the credit side. The new municipal balance sheets are divided into as many sections as there are different utilities rendered by the municipality, which sections are then subdivided into as many funds as necessary.

No municipal corporation could have more than all of the following funds although some municipalities will only have two or three or four of them:

Capital fund,  
Loan fund,  
Sinking fund,  
Revenue fund,  
Trust fund.

Each fund of every section is an entity by itself and cannot be amalgamated with any other fund although the total of the same funds of different sections may be shown on a special consolidated balance sheet.

The benefits derived from such a division of the municipal balance sheets are numerous and I shall mention a few.

**Revenue Fund**—First, the banker, who is particularly interested in the current condition of the municipality instead of in what it is liable to pay for the next 20, 25 or 30 years to come, will get his information from the revenue fund. That balance sheet will show whether taxes are collected and in what proportion. It will also be easy to learn whether the temporary notes are in proportion to the current assets or not.

**Loan Fund**—Reference to the loan fund will inform the reader not only as to the amount due by bonds or otherwise, but will also reveal the use that was made of the proceeds from the sale of the bonds. This fund will show any new and old consolidating of revenue deficits—probably one of the worst evils of municipal finance. That practice has certainly been abused in the past with the result that the present and future generations will have to pay the bills that should have been paid by the generation which was the only one to benefit from the expenditures that created such deficits.

**Sinking Fund**—A glance at the sinking fund will indicate whether the instalments that should have been made or accrued to this fund at a certain date have been collected and invested by the sinking fund. Upon any deficit in this fund being regularly shown the interested parties can then take the necessary steps to remedy the situation without delay. The deficit in the sinking fund will not, in the future, be kept hidden either willingly or unwillingly from the ratepayers.

Would you be surprised to hear that some administrators are amazed to learn upon their entry into office that large deficits have existed in the sinking fund, without this fact being shown in the financial statements? The omission was due either to gross negligence or lack of knowledge, but in any case due to an incomplete method of reporting. This experience repeated itself just recently.

**Capital Fund**—The capital fund is now kept separate from the loan fund. The idea is to show in one special fund the different assets owned by the municipality which are fully paid for without being fully depreciated at the date of the balance sheet.

**Trust Fund**—This fund is rarely used but whenever it is put in practice it is intended to record and show moneys held by the municipality for third parties.

The present method of submitting municipal balance sheets divided into sections and subdivided into funds including the statement of revenues and expenditures compared to the budget items as well as a detailed statement of cash receipts and a condensed statement of cash disbursements, and also a special statement concerning the reconciliation of the surplus account from year to year, facilitates the study of any municipality's financial condition.

It is no secret that the success experienced by the City of Sherbrooke in the sale of its \$400,000.00, twenty-year bonds in July 1936 at the rates of  $2\frac{1}{2}\%$ ,  $3\%$  and  $3\frac{1}{2}\%$  and at the fair price of 99.36 is in no small part due to the financial statement prepared by the City which gave the financial situation of Sherbrooke in an understandable way to the prospective buyers of your bonds.

A financial statement does not limit itself to the balance sheet and its related statements, but gives much additional information which is always appreciated by the bond dealers.

The municipal financial statements should be prepared carefully not only at the time of the bond issue but should be drawn up annually with the same ability and care, so as to keep the present bondholders as well as the future owners well informed as to the actual financial position of the corporation.

The municipalities which have followed these lines have been amply repaid. This is proved irrefutably by the City of Sherbrooke's 1936 sale of bonds.

### Municipal Credit

The municipal credit of this Province is the constant occupation of the Quebec Municipal Commission and anything that can directly or indirectly affect it forms the object of a particular study. It is with the same idea in mind that the Quebec Municipal Commission has always done its best to reorganize the finances of the defaulted corporations as fast as possible.

You will have undoubtedly noticed that in no instance have the bondholders of any municipal and school corporation, which was in default in this Province, been ignored in any plan of reorganization already submitted. Moreover, the Quebec Municipal Commission has always felt it to be its duty to see that the existing contracts are respected by the defaulted corporations in the reorganization of its finances. If the condition is such that the municipality cannot live up to the different clauses of its contract, then the Commission studies ways and means of extending the period of the reimbursement of the capital leaving the rate of interest untouched.

In cases where this measure would not be sufficient relief for the municipality, a cut in the interest rate would be included in the plan to be submitted to the bondholders which will cover the same period of time for the reimbursement of the capital, if possible, and in the extreme cases this period will be extended to the shortest possible.

The Quebec Municipal Commission, in the cases where the rates of interest have to be decreased, seeks to limit such reductions to the actual market rates. This policy followed scrupulously by the Quebec Municipal Commission has received so far the necessary consent from the bondholders and strong commendation from outsiders, not the least of which is the *Financial Post* of Toronto.

With a total of some eighty municipalities which were in default, twenty-one are completely reorganized; the reorganization plans of three are actually awaiting the necessary percentage and those of twenty-six others are to be submitted within the next six months; sixteen municipalities are under study as their reorganization will be possible only if certain events occur and, finally, there are fourteen for which the Quebec Municipal Commission cannot for the time being draft any definite plans.

## THE STATISTICAL CONTROL OF BUSINESS ACTIVITIES

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**I**N ANY well managed business there is and must be, consciously or unconsciously, a very great dependence upon statistics. Facts are essential in business. Complete information does not guarantee success in a given undertaking; but a business man who provides himself with a sound understanding of a situation before outlining his course of action has provided a foundation upon which his analytical and intuitive powers can build to his own best advantage. Every intelligent business man strives to possess a wide range of knowledge, to interpret it skilfully and to present it convincingly to others.

Economic life at the present time is complex. Channels of distribution, stretching from raw-material producers to ultimate consumer, are long and tortuous. Agriculture with its many subdivisions is intricately connected with the far-reaching branches of industry. Strife and disturbances in what were once remote and foreign lands unavoidably produce repercussions in our own economic life. There is much to be known and understood now that it is a full-time job to keep abreast of the times. The modern method of integrating the various parts of this gigantic puzzle into a simple and understandable whole makes use of quantitative measures, of number relations, called statistics. Books of account, payrolls, stock records, sales records, production schedules, cost records, purchasing schedules, and innumerable other entries and summaries of current and prospective operations are nothing more or less than the statistics of the business. In some special enterprises, notably those concerned with the various forms of insurance, and to a considerable extent in banking, the statistical element predominates. Furthermore, there is rarely even a minor executive in any business who does not, knowingly or otherwise, base his decisions very largely upon the statistics of his operations.

### Business Conditions and Prospects

How is Business? That is the question that most business men are concerned with, for on its answer depends



whether they will raise or lower prices, increase or decrease production, purchase far ahead or only for current needs, expand or liquidate stocks, buy or sell equipment, increase or decrease advertising, as well as many other policies of prime importance in the conduct of their business. The very recurrence of this question in the office or in the factory, at lunch or at the club, on the train or on the street corner testifies to its importance in the conduct of every business as well as to the difficulty of securing a correct answer.

Until recently the average business man, in his quest for information as to the trend of conditions, sought out other business men in order to check up on his own opinions and the showing of his company, for he realized that the figures of his own company were not necessarily representative of general business trends, but that his company would be vitally affected by these trends. But even a few opinions from outsiders did not solve the problem; they were formed in just the same manner and subject to the same limitations, and besides, they were often contradictory.

The business world now has a means for providing an answer to this question so that the executive may obtain the precise facts instead of relying on mere opinions. The solution was found in the collection and compilation of actual current facts, weekly, monthly, occasionally even daily, from representative concerns in each important industry or trade, to form a complete picture of the business situation therein. With these statistics covering the principal industries at his command, the business executive of today can answer the question in a simple yet correct way.

Statistics by themselves, however, cannot effect any magic transformation of business. The errors made by business forecasting services in the past in predicting the trend of future events shows that statistics cannot of themselves lead to 100 per cent. accuracy. But the trouble is not so much with the statistics as with the use made of them. Statistics are not the whole cure of business ills or the whole force of business progress any more than the compass can make the ship sail. But the information which the compass gives of the ship's course is vital to the proper navigation and, similarly, statistical informa-

tion on the course of business is becoming more and more vital to the proper steering of the course of each industry.

### **Business Forecasting**

What is business forecasting? Business forecast is the estimation of reasonable future probabilities, based upon all the facts that are knowable today, upon the principles evolved from yesterday's experience, and upon the assumption that, in varying degree, these principles will be valid in the future as they have been valid in the past.

The method followed may best be described as that of economic analysis. The simplest way to explain it is to say that it is the method of common-sense reasoning based upon facts, experience, deduction, and inferences, and leading therefrom to what appear to be reasonable conjectures of future probabilities.

Probably no requirement is more definitely imposed upon the present day business executive than that of ability to analyze business operations in relation to the business cycle. Such analyses have a fundamental bearing on the operating budget, and are also of primary importance in connection with the determination of financial, purchasing, and sales policies, and in the handling of labour and personnel matters.

In the vast majority of businesses very useful forecasts of future activity may be made by the simple and statistically crude method of plotting a curve of past performance for as many years as possible, in comparison with a curve representing general business activity and then carrying both curves forward, keeping in mind the probable development of the current business cycle and the relations between the two curves that have obtained in previous cycles. In making this analysis and forecast it is important to deal in physical quantities of production, sales, and so forth, rather than in dollars of value, in order to avoid confusing real changes with those due to mere price fluctuations. It is, of course, also necessary to have at hand a trustworthy chart of general business activity covering a long period, which can be kept up to date by monthly additions.

Probably one of the greatest aids to business men is the Monthly Review of Business Statistics, published by the Dominion Bureau of Statistics. In this Review all the im-

portant business series are tabulated. There is little attempt made at interpretation however, the chief purpose of the publication being to place the materials required for interpretation readily at the disposal of the business public.

The development of business forecasts for any organization may indicate profitable opportunity for many refinements in statistical technique. Corrections for seasonal variations and long term trends, and for the tendency for changes in any particular business to occur before or after changes in general business, are especially important. Some business activities move with pig iron production, new building, and so forth, rather than with general business. Others even tend to increase rather than decrease during periods of general business depression. Certain businesses are concerned mainly with domestic conditions, while others are vitally affected by the status of foreign trade. Here, again, there is a chance for co-operation between the executives in selecting, on the basis of practical knowledge, those outside activities with which a particular business is most intimately affiliated.

### Market and Price Analyses

Closely related to forecasts of the activity of the business as a whole are those special studies which deal with marketing possibilities and probable price trends.

**Firm's Share of Market**—One of the difficult problems in market analysis is that of determining whether or not a given firm is maintaining its standing in relation to competitors. In some cases there are public or trade association statistics which give sales or output for all, or a large percentage of, the concerns in a given line, but in the majority of instances it is necessary to undertake special investigations. These investigations will, of course, vary in type with the nature of the business. The fundamental principle is, however, almost always that of determining, for different provinces or other convenient areas, the ratio of total competing business to the business of the investigating concern. If, for example, the product is tooth paste, even very scattered inquiries, made by salesmen of druggists and other retailers, will soon establish such ratios with a fair degree of accuracy. For other products or services it may be necessary to make inquiries through

other channels of distribution, but persistent work, supplemented by an intelligent weighting of the returns, will furnish the required information in almost every instance.

With the preceding local ratios once determined, it is a simple matter to compute, from the known sales of the investigating concern, what the approximate total sales are in each area. Such rough totals may next be compared with population, income figures, property values, banking resources, public expenditures, percentages of children of school age attending collegiate, technical or continuation schools, and other general indices, to determine to which of such factors, or to what composite of them, the natural demand is most closely related. The finished studies then become a guide to the formulation of sales and advertising policies.

**Determining Inventory Requirements**—Price studies and forecasts are of particular importance to concerns that must carry large inventories, or that regularly manufacture in large quantities for stock. The basic principle which underlies such studies is that of the tendency toward a long-term continuity in price relations, subject only to those gradual drifts which arise out of the exhaustion of raw materials, and, occasionally, out of changes in the relative cost of skilled and unskilled labour. This tendency may, of course, be obscured or interrupted by changes in processes, by the development of important substitute commodities, and so forth. Radical increases in supply, as in the case of plantation rubber, may also break the line of continuity for special commodities. But with allowance made for these special cases and special factors, it is still possible to draw normal price curves, properly related to the general price level, for the great majority of all common articles of commerce.

With such normal price lines once drawn, the price study next concerns itself with seeking the explanation for past variations from "normal," in known conditions as to stocks on hand, production, demand, and so forth. The final operation, of course, is that of projecting the price trend into the future. Here, however, there is need for caution.

**Revising Estimates Periodically**—These estimates should be revised and extended at appropriate intervals, and

monthly comparisons should be made between actual results and the budget figures for all important items. Such monthly comparisons should also carry explanations of important variations from the original estimates. In case these variations accumulate to a degree that impairs the usefulness of the budget in the control of operations, there should be no hesitation in revising the estimates at a mid-year period, and such revision will be especially necessary in the event of any sudden and unexpected change in business conditions. Under ordinary circumstances, however, it is a better procedure to maintain the original estimates as the basis for comparisons throughout the year, and to supplement them by means of departmental and other estimates indicating results actually expected during the balance of the year. As so set up, the budget will show, for each important item and in totals, the original estimates, the actual results to date, and the expected results during each of the remaining months of the year. For most effective use, these figures should be given in cumulative form as well as in detail by months.

**Importance of Budget**—In the actual compilation of the budget and in the preparation of monthly statements, the chief accounting officer of the organization must necessarily assume primary responsibility. Nevertheless, there can be no more serious mistake than to assume that the budget should be handled as a mere matter of accounting detail. The purpose of the budget is to increase profits and reduce losses. It can only do this if it assists the whole organization in maintaining a uniform company policy. Production, sales, and purchases must be in accord. Prices must not get out of line with costs. Profits, new financing, and new construction must be in balance. Caution and courage must go hand in hand with foresight in the whole programme.

To secure these results, each department and each important unit in the organization must have an active part in the preliminary conferences and discussions—and back of all must be a careful setting forth of all the facts and trends that may contribute to a sound final decision. It is particularly important to have a thorough statistical check on all items into which an element of personal bias may enter. Only when these steps have been taken and when each responsible executive knows in general terms

not only what he is to do, but why, is it possible to reduce the budget to final form.

### **Labour or Wage Studies**

The business executive will, in most cases, be interested in statistics dealing with labour performance and reflecting other factors than money costs. The following items may be considered:

- Output in units per labour hour
- Output in units per labour dollar
- The ratio of direct to indirect labour payroll
- The average earnings per man
- Summary of bonuses earned
- Number of lates and absences by departments
- Percentage of standard production by departments
- Percentage of standard labour cost by departments.

These statistics will, of course, need to be used with intelligence; the causes of variation should in all cases be ascertained before judgment is passed upon them.

The importance of determining fair rates of pay is very necessary. It is probably safe to say that there is no business organization that is capable of introducing real statistical control, which cannot at the same time secure the lowest cost per unit of output, by paying distinctly more than a market wage. A relatively small wage differential, combined with good general working conditions, will soon attract a group of employees who have the instincts of workmanship and co-operation. But this is only the beginning. Such selected employees will respond very quickly to good leadership and good management, but they may do even worse and show more resentment than a miscellaneous group if management and leadership are poor. The potentialities will be there, but they can be realized only through skilled and intelligently directed administration in which statistical control must play a large part.

**Cost of Labour Turnover**—In the administration of labour, no subject is more important than labour turnover; it is in some measure the gauge of success and will often constitute the principal variable in the cost of labour itself. Wherever labour policy is a considerable factor, therefore, it is desirable to keep some record of the cost of labour turnover as well as of the extent of it. Statistics should be kept covering the number of men employed by the com-

pany from time to time, the number taken on, transfers, resignations, discharges for cause and laid off for want of work.

Parallel to these statistical records, a statement in dollars and cents of the cost of labour turnover will be serviceable. This account should include premiums or fees paid to employment agencies, advertising for help, cost of training, excess labour cost incurred by the new employee while his output is below normal, idle time or machines standing idle pending the hiring of operators, cost of spoiled work due to inexperience.

Study should also be made as to the possibility of guarantee of continuity of employment to deserving employees of any given minimum length of service. These studies will involve related investigations of the possibility of manufacturing for stock and increasing sales activities during periods of business depression. Following such investigation will come studies of possible sick benefit, death benefit, pension plans, dismissal wages and saving plan and bonus distribution. All of the foregoing plans may have their proper place in the development of a sound working organization and all will require accurate and properly analyzed records.

**Established Policy Necessary**—Back of these immediate and constructive uses of statistical control in wage and labour matters lies an even larger protective function. No plans for the securing of high productivity through the establishment of a proper working morale can be successful unless they represent a firmly established policy. Not only must each change be introduced gradually, but it must also be made secure through continuing statistical evidence; otherwise temporary and wasteful attempts at economy may destroy in a few days the gains that have been made in months or years.

When it comes to the details of statistical studies bearing on labour and wage problems, the range is so wide that it is hardly possible to do more than list a few of the more important angles of approach.

Critical examination must be given, in the beginning, to cost accounting systems. If these involve rigid apportionments of overhead expense and lack of statistical flexibility, they may seriously obscure the results obtained from



efforts to secure increased productivity through wage increases and improved working morale.

Any successful programme must be based upon a policy of gradual development, with the closest of co-operation between statistical and administrative forces. Each subordinate executive must feel that he is directing, and to a large degree is planning, his own statistics. The most fatal of all steps is to attempt to impose statistical control as a super-management over a skeptical and unwilling organization.

Beyond this initial requirement, there is the need for a continuing practical touch in every angle of the statistical work. The actual reports and analyses will vary in type from business to business and from month to month in any given business, but the basis for all internal statistics must be accurate and properly filed records of current and prospective activities. It is much more important to know just where and how fundamental information may be obtained, when needed, than it is to multiply routine reports and compilations. Ordinarily it will be found that the primary records need only the most inexpensive kind of revision to make them thoroughly adaptable to all further requirements. Frequently, in fact, this initial review will be a source of economy rather than of added expense.

With this solid background of accurate records once established, it is possible to simplify very greatly the reports which form the basis for routine statistical control. Each analysis, to justify itself as a routine report, must have a definite relation to executive action and its indications must in every case be positive, either that conditions are satisfactory or that they are unsatisfactory, and, if the latter, where and why. Furthermore, the frequency of each report must be adjusted to executive requirements. Simple daily and weekly statements may be summarized, with added details, in monthly reports. Many reports may be made quarterly, semi-annually, or annually, with better effect than if made at more frequent intervals. Condensed reports covering vital points, with written comment calling attention to important changes, may go forward to the ranking executives, and these reports may be expanded in any necessary detail for subordinate executives—or each report may be headed by an abstract of important items and may be amplified thereafter as required.

### **Complete Programme of Statistical Control**

Supplementing these routine reports, proper attention to primary records will make it possible to rely very largely upon special studies made whenever the routine reports reveal conditions demanding detailed analysis. With these additions, the complete programme of statistical control for the great majority of business undertakings will include:

1. The operating budget, with current monthly comparisons between the budget figures and actual results,
2. Monthly analyses of current and prospective business activity and price trends, as a guide to budget revision, production and inventory control, and sales and advertising policies,
3. Current administrative and cost statistics, as a guide to detailed executive action,
4. Wage and labour statistics, which may be elaborated according to the character of the business,
5. Special statistical studies, which should be used freely as an alternative to excessive detail in routine reports.

The final test of the value of all the preceding programme will lie in its success in multiplying the power and increasing the effectiveness of the responsible executives. It is a basic principle in business economics that the efficient size of an enterprise is determined by the point of balance between the increasing efficiency of processes and methods, and the decreasing efficiency of the human element, with growth in magnitude. When the volume of business is once great enough to permit full efficiency in processes and methods, further growth is ordinarily limited by the ability of a small group of active managers to spread their personal influence and enthusiasm throughout the organization.

It is here, in particular, that properly planned statistics have their greatest usefulness. If the executive will ask himself specifically and in detail what items and conditions he must watch and when he must act—if he will take each recurring problem and determine what facts are necessary for his decisions—it will not be difficult to set up a series of periodic or special reports of such sort as to make the majority of these decisions a matter of relatively simple routine.

### Conclusion

Because of the complexity of modern business, it is practically impossible for the management or an executive of a large corporation to rely on personal observations and impressions when formulating plans and policies. To do so would lead to frequent errors and costly mistakes of judgment. The human mind cannot adequately grasp the significance of a multitude of facts in the variety of their occurrence. In consequence many problems of management are today being solved by the intelligent use of statistics past and present. By this means, the pertinent facts regarding a business are classified, summarized and analyzed. By reducing the facts to figures, comparisons can easily be made and the proportion of one thing to another is more accurately presented. Charts, tabular statements and narrative comment may be combined according to the desire of the executive.

We are in an era of keen competition in business, and factual information is essential to success. Many firms would be in a much better position today if statistics had been employed by the men at the helm,—if warning signals had been set, recognized and heeded.

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### ACCOUNTING MACHINES

(Contributed)

Accountants have become renowned exponents of accounting machines—figuring machines, statistical machines, bookkeeping machines, and the like. Office machines, which have justified themselves economically throughout the years, are indebted to accountants, because accountants not only have adapted the machines to their personal needs, but also have been conscientious in recommending machines to clients.

So intimate is the triangle made up by the office equipment maker, the accountant, and the average business office that leading office equipment companies go to great annual expense to keep accountants (as well as customers) informed of the latest developments, the newest applications, and the important economies of their products. It can be said with a substantial portion of truth that some

accountants are nearly as well versed in the range and capabilities of office machines as are some office equipment salesmen.

In their endeavour to be of utmost service to their own clients, hundreds of accounting firms have become discontented with merely keeping abreast of developments in accounting machinery. They want to go further. They want a better grasp of the subject.

They want to know—and the more progressive now are able to tell—which of their clients' offices can benefit from applying office machines. How much volume is required to make a machine installation profitable? What type of machine should it be? How do accounting machine salesmen determine and evaluate the various factors?

With this inquiring and co-operative attitude prevalent among accountants, it behooves the office equipment makers to supply the answers. While it can be done most effectively by personal contacts, these few paragraphs are being offered as substitutes.

To whom can accounting machines be recommended?

Accounting machine salesmen, being engaged in making a living from selling machines, just as an accountant's livelihood comes from rendering a service, are on the look-out at all times for accounting machine prospects. The salesman develops a "nose for prospects" much as the trained reporter acquires a "nose for news."

However, of the multitude of offices canvassed and called on daily by office equipment salesmen in their search for prospects, only a small percentage warrant the outright recommendation that they buy machines. To suggest a machine to every office would be gross over-selling.

In a general way, it can be said that accounting machines can be recommended to offices which want to achieve their present accounting results in less time than now required; or offices which want to obtain improved results—more facts, more legible and cleaner records, and more detailed reports—more expeditiously than at present; or offices which aspire to results not attainable unless mechanical accounting is installed.

How is the type of machine selected?

Once the need for an accounting machine has been recognized, the selection of the particular machine proceeds in

an orderly manner. It begins by having an accounting machine representative make a thorough analysis of the work involved and the objectives to be reached. The accounting machine representative usually makes a preliminary survey for his own guidance. Following that he settles down to making the thorough analysis, beginning with a review of the present procedure and concluding with a written recommendation for the future. Each analysis, thereby, is an individual proposition and the written proposal, submitted after weighing all factors, is custom-made. Even the machines, the more complex ones, have to be tailor-made!

Some manufacturers offer such a wide variety of accounting machines that their representatives' recommendations need be neither biased for any reason nor limited by manufacturing conditions. As an example, one leading manufacturer of business machines makes both listing (printing) and non-listing figuring machines. Its representatives can suggest either, because they sell both. Likewise, the same company makes accounting machines which print numbers only and those which print both numbers and letters—typewritten description. These are isolated cases from the portfolio of one company, but they show how that manufacturer is equipped to apply its accounting machines to the most exacting of individual requirements.

Do accounting machines pay?

This is the final test. After a thorough analysis of the accounting routine has been made and after a study of the various equipment specifies machines of a certain type, the prospective purchaser wonders whether the change is worth the investment. He thinks of employee relationships (machines often improve this); he thinks of the forward trend in office procedure; and eventually he gets to the last step leading to the signed order—he considers cost. After all is said and done, the benefits must justify the expenditure—and arriving at that decision does not need the assistance of a complicated accounting machine.

A concluding thought—Machines and Jobs.

Mr. W. J. Cameron, of the Ford Motor Company, speaking on "Machines and Jobs," told a nation-wide radio audience, "It always surprises people to learn that most of the machinery in use is not labour-saving machinery at all.

Most of it is labour-serving or labour-creating; it enables men to work at tasks that never would have been attempted otherwise. Since modern machinery appeared, twenty great industries have sprung into existence that never could have existed without machinery.

"While machines undoubtedly economize on labour in some operations, and thus release men to more man-like tasks, nevertheless the question is not Man versus Machine, or what machines can do without men—(of course they can do exactly nothing without men): the question is, what hitherto unattainable ends man may reach with the machine?"

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### ACCOUNTANTS AND THE PUBLIC

Following the anniversary meeting of the American Institute of Accountants last October a number of the delegates from Great Britain visited Eastern Canada and were entertained by the Quebec Society and the Ontario Institute. Among the delegates was Mr. Walter Holman of London, President of the Society of Incorporated Accountants and Auditors. The following remarks of Mr. Holman made at a district meeting of his Society in England and reported in *The Accountant* (London) are of interest as they apply equally to the profession in Canada.

According to its memorandum of association, his Society, Mr. Holman said, existed "to promote and foster in commercial circles a higher sense of the importance of systematic and correct accounts," and paraphrasing this he would say their job was to educate the commercial community in the knowledge of the services which professional accountants could render to it. When he used the words "professional accountants," he meant those in public practice, who were directly and personally responsible for their own work and who were subject to professional restrictions, one of which was that they must not advertise themselves. Whether they liked it or not modesty was the compulsory badge of all their tribe. The Society was under no such self-denying restriction, however, and he, as President, was free to sing its praises and those of his professional brethren.

An accountant's job could be summarized under two headings, namely, to ascertain the truth and to tell the

truth. To ascertain the truth sounded easy but often it was far from that. Technical skill was always required, sometimes skill of a very high order. He gladly recognized that many concerns possessed efficient accounting systems, but many (even now) did not. Even where the facts and figures were easily ascertained, the correct interpretation of those facts and figures required trained and experienced capacity. He would remind them of the saying that figures could be made to prove anything. Disaster might well follow the abuse or misuse of figures which were in themselves correct. In days gone by, an accountant was largely concerned in the mere arithmetical checking of accounts and records, but today, owing to the improvement in the general level of keeping records, accountants could, if they were allowed and instructed, concentrate on the more important and the more productive work of analyzing, departmentalizing and interpreting results.

Their work was also to tell the truth. Again it sounded easy, but again it was often far from that. It required character and independence, and sometimes moral courage of a high order, since the truth was not always pleasant and there were those who did not want to hear the truth, or having heard it, did not want it to repeat it to others, to bank managers, shareholders or Revenue authorities.



THE DOMINION ASSOCIATION OF CHARTERED  
ACCOUNTANTS

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1937-38

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## GENERAL NOTES

### Our Contributors This Month

HAROLD SMITH MOFFET, whose essay published this month won first prize in The 1937 Essay Competition, was born in Saskatchewan and is a graduate of the University of that Province (Bachelor of Accounting, 1931). After graduation he served his period of apprenticeship in the office of Messrs. Rooke, Thomas and Company, chartered accountants of Regina, passed the Final examinations of the Institute of Chartered Accountants of Saskatchewan, and became a member of the Institute in 1934. He is now Auditor of Prairie Coach Lines, Limited. JOSEPH ALBERT TOWNER, who is a member of the Quebec Municipal Commission and whose address on Municipal Finance we are privileged to publish this month, is a member of the Society of Chartered Accountants of the Province of Quebec. Mr. Towner acts as Professor of Municipal Accounting at the Quebec Commercial Academy which is affiliated to Laval University, and is the author of two books on municipal accounting. PROFESSOR PHILIP HOWARD HENSEL, of the University of Western Ontario, London, who in our January issue discussed the analysis of financial statements, deals this month with the subject of statistical control of business activities.

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### Comments and Descriptions in Annual Reports of Corporations

The following comments and descriptions have appeared in recent financial statements of companies incorporated in Canada.

*The publication of such comments here from time to time is not necessarily to be regarded as approval of the form thereof by the Editorial Committee or by the Dominion Association of Chartered Accountants but rather as interesting information for readers.*

1. The following items appear in the balance sheet as at 30th September 1937 of *United Distillers of Canada Limited* (Dominion charter) and its subsidiary companies:

#### SHARE CAPITAL AND EARNED SURPLUS:

Share Capital—

Represented by . . . . . shares without nominal or par value, being a

# THE CANADIAN CHARTERED ACCOUNTANT

total of . . . . . shares issued less		
. . . . . held by a Subsidiary, part		
of an authorized issue of . . . . .		
shares . . . . .	\$ . . . . .	
Less—Reduction in accordance with		
Supplementary Letters Patent		
dated February 13, 1937 . . . . .	. . . . .	
	\$ . . . . .	
Earned Surplus per statement at-		
tached . . . . .	. . . . .	\$ . . . . .
Capital Surplus arising from the ac-		
quisition by a Subsidiary Company		
of Shares of the parent Company		
at a cost less than the average		
stated value . . . . .	. . . . .	

The Auditors' Report to the shareholders of this company is as follows:

We have made an examination of the Books and Accounts of United Distillers of Canada Limited and its Subsidiary Companies as at September 30, 1937, with the exception of those of the California Branch of U. D. L. (of America) Inc., for which audited statements have been accepted. In connection therewith we examined or tested accounting records and other supporting evidence and obtained all the information and explanations which we required; we also made a general review of the accounting methods and of the operating and income accounts for the year.

In our opinion, based upon such examination, the accompanying Consolidated Balance Sheet and related Statement of Profit and Loss and Earned Surplus are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the United Distillers of Canada Limited and its Subsidiary Companies as at September 30, 1937, and the results of their operations for the year ended on that date, according to the best of our information and the explanations given to us and as shown by the books of the Companies.

2. The following appear in the balance sheet of *Massey-Harris Company, Limited*, (Dominion charter) and subsidiary companies as at 30th November 1937:

Inventories . . . . .	\$ . . . . .	
Less: Contingency Reserves . . . . .	. . . . .	
(Inventories were certified by the management — quantities determined by count or from book inventories verified by count during the year and valued at the lower of cost or market after applying the reserves shown.)		
Land, Buildings and Equipment . . . . .	. . . . .	
Less: Reserves for Depreciation, including Surplus from Revalua-		

## GENERAL NOTES

tion of acquired Plant .....

In the purchase of certain assets in 1928 the value of \$1 was assigned to the fixed assets acquired. These were revalued at that time by the management and the surplus remaining from this revaluation of \$. . . . . is included in both the above fixed assets and the reserves deducted. All other fixed assets are included at cost.

Patents .....

**The Auditors' Report to the Shareholders of this company is as follows:**

We have examined the above consolidated balance sheet of Massey-Harris Company, Limited, as at 30th November, 1937, in which are incorporated the signed returns from branches and subsidiary companies as of that date, but we have not audited the transactions in detail during the year. The Reserves provided against the Receivables are as accurate as can be determined at the present time, but their adequacy or otherwise is dependent upon conditions in the agricultural industry.

Subject to the foregoing, we report that, in our opinion, the above consolidated balance sheet correctly sets forth the position of the companies' affairs according to the best of our information, the explanations given to us and as shown by the books and returns. We have obtained all the information and explanations we have required.

**3. The Auditors' Report to the shareholders of *Monarch Mortgage and Investments Limited* (Ontario charter) on the balance sheet as at 31st December 1937 is as follows:**

We have examined the accounts of Monarch Mortgage and Investments Limited, for the year ended December 31, 1937. The present situation in regard to property values is such that we are unable to express an opinion either as to the value of the properties or the adequacy of the Reserve for Doubtful Mortgages Receivable. Depreciation for the current year on properties owned by the Company has been included in the accounts at 90% of standard rates and, in our opinion, the reserve for depreciation is inadequate.

In accordance with the provisions of the Companies Act (Ontario) we have to report that, subject to the foregoing, in our opinion the above Balance Sheet as at December 31, 1937, is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs as at December 31, 1937, and is as shown by the books of the Company. All our requirements as auditors have been complied with.

**4. The Auditors' Report to the shareholders of *Allens London Theatre Limited* (Ontario charter) on the balance sheet as at 1st January 1938 is as follows:**

We have audited the accounts of Allens London Theatre Limited for the fifty-two weeks' period ended 1st January 1938 and have received all the information and explanations we have

## THE CANADIAN CHARTERED ACCOUNTANT

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required. We report that in our opinion the above balance sheet and related statements of earnings and deficit account have been drawn up in accordance with accepted principles of accounting and on a basis consistent with the preceding fiscal period, so as to exhibit a true and correct view of the state of the Company's affairs at 1st January 1938 and of the results of its operations for the fifty-two weeks' period ended on that date, according to the best of our information and the explanations given to us and as shown by the books of the Company.

### Civil Service of Canada

The following opening for an Audit Accountant appeared in the memorandum issued 10th February 1938 by Wm. Foran, Secretary of the Civil Service Commission, Ottawa:

AUDIT ACCOUNTANT, GRADE 1, MALE, AUDITOR  
GENERAL'S OFFICE, OTTAWA, \$1,920 PER ANNUM

Comp. 27391. An Audit Accountant, Grade 1, Male, for the office of the Auditor General, Ottawa, at an initial salary of \$1,920 per annum. Although only a temporary appointment can be made to this position at present this examination will qualify for permanent appointment. In the event of a permanent appointment the initial salary of \$1,920 will be increased upon recommendation for meritorious service and increased usefulness at the rate of \$120 per annum until a maximum of \$2,520 is reached.

*Duties*—To assist in or conduct investigations of accounts and to take charge of any work connected with any branch of the Auditor General's Office in the examination and audit of departmental accounts and to make reports on same. The work may necessitate extended absences from Ottawa.

*Qualifications Required*—High school graduation, preferably university graduation with specialization in Accountancy; at least three years' satisfactory experience in professional accounting and auditing in a position of professional responsibility; membership in a recognized association of professional accountants; integrity, good judgment. The conditions under which education and experience and admittance to professional standing have been acquired, the nature and extent of experience as well as the personal character of the applicants will be taken into account in making a selection. While no definite age limit is fixed for this competition, age may be a determining factor in making a selection.

*Nature of Examination*—A rating on education and experience will be given by an Advisory Examining Board on the statement submitted by applicants on and with their application forms. Candidates should give full details regarding their technical experience or any relevant training along the line required. An oral examination may be given if considered necessary in the opinion of the Commission. No examination fee is required.

An eligible list may be established which will be valid for a period of one year.

#### TIME LIMIT

Application forms properly filled in must be filed with the Secretary, Civil Service Commission, Ottawa, Ontario, *not later than March 12, 1938.*

## GENERAL NOTES

Application forms are obtainable at all City Post Offices, the Post Offices in the larger towns, the Offices of the Employment Service of Canada, or from the Secretary, Civil Service Commission, Ottawa, Ontario.

Please quote competition number when filling out application form.

### GENERAL INFORMATION

*Residence*—Candidates must be British subjects, and must have resided in Canada at least five years. . . . .

## Municipal Administration

It is of interest to know that a course in municipal affairs and one in municipal accounting are being given by the Department of Business Administration of the University of Western Ontario, London. As we have mentioned on previous occasions, there is a decided lack of proper accounting in most municipalities throughout Canada.

We understand that this University is working in co-operation with the Department of Municipal Affairs of Ontario and has appointed a research assistant to study present municipal accounting systems in that province. Such a move is to be commended. Through co-operation with the governments, our Canadian universities can undoubtedly perform a real service in helping to remedy similar unsatisfactory situations in their respective provinces.

## Dominion of Canada Finances

From a statement of Receipts and Disbursements of the Comptroller of the Treasury (Canada) published in *The Canada Gazette*, 12th February last, we give the following for the first ten months of the fiscal year of the Government of the Dominion of Canada.

Receipts	April 1, 1937 to January 31, 1938	April 1, 1936 to January 31, 1937
	(unrevised) (thousands of dollars)	(thousands of dollars)
Customs import duty . . . . .	\$ 79,757	\$ 68,246
Excise duty . . . . .	44,571	38,796
Excise taxes, sales, stamps, etc. . .	150,527	121,811
Income tax . . . . .	113,112	95,505
Post office department . . . . .	29,100	27,691

# THE CANADIAN CHARTERED ACCOUNTANT

Sundry departments .....	19,240	19,577
Total ordinary receipts .....	436,307	371,626
Special receipts .....	1,759	135
Total .....	<u>\$438,066</u>	<u>\$371,761</u>
<i>Disbursements</i>		
Ordinary expenditure .....	\$320,673	\$308,803
Capital expenditure .....	3,746	3,158
Special expenditure—		
Relief grants-in-aid to Provinces	14,879	24,239
Relief works .....	18,006	27,647
Drought area relief .....	13,849	3,735
Government owned enterprises—		
Canadian National Railways		
deficit .....	39,872	35,254
National Harbours Board .....	2,034	2,087
Other charges—		
Write-down of assets, etc. ....	1,198	367
Total .....	<u>\$414,257</u>	<u>\$405,290</u>

## Chartered Banks Have Numerous Shareholders

The 1,455,000 shares of the ten Canadian chartered banks are held by more than 50,000 people and estates scattered throughout the world. The annual return required by statute was tabled in the House of Commons on 1st February by the Minister of Finance. The following statement gives the particulars concerning these banks at 31st December 1937:

<i>Bank</i>	<i>Number of shareholders</i>	<i>Number of shares outstanding</i>
Montreal .....	9,180	360,000
Nova Scotia .....	4,101	120,000
Toronto .....	1,283	60,000
Provinciale .....	3,180	40,000
Commerce .....	12,054	300,000
Royal .....	12,380	350,000
Dominion .....	2,178	70,000
Canadienne Nationale .....	3,201	70,000



# GENERAL NOTES

Imperial .....	2,616	70,000
Barclays .....	12	15,000
Total .....	<u>50,185</u>	<u>1,455,000</u>

## The Bank of Canada

According to a return tabled in the House of Commons on 7th February, the outstanding capital stock of 100,000 "A" class shares (par value \$50 a share) of the Bank of Canada is held by 10,019 investors. The remaining capital stock of 102,000 "B" class shares of the same par value is held by the Minister of Finance, thus giving the government of the Dominion of Canada majority ownership. The following table shows the distribution according to the nine places of registry:

<i>Place of Registry</i>	<i>Number of Shareholders</i>	<i>Shares held</i>
Charlottetown .....	70	723
Halifax .....	612	6,325
Saint John .....	229	2,417
Montreal .....	2,694	27,275
Toronto .....	4,251	44,249
Winnipeg .....	625	5,580
Regina .....	559	4,348
Calgary .....	351	2,901
Vancouver .....	628	6,182
Total .....	<u>10,019</u>	<u>100,000</u>

## Institute of Chartered Accountants in England and Wales

*Examination Results*—At the November 1937 examinations of the Institute, 262 candidates were successful in the Final examination out of a total of 588 writing; in the Intermediate 266 passed out of 545; and in the Preliminary 105 out of 246. The percentages of passes were: Final 44 per cent.; Intermediate 49 per cent.; Preliminary 42 per cent.

*Pension Scheme*—The Council of the Institute has appointed a Committee to consider the whole question of a

pension scheme for employees of members of the Institute. The Committee is composed of Messrs. William Cash, G. R. Freeman, H. L. H. Hill, Gilbert Shepherd, Herbert Smith and T. Walton. It will have power to take evidence and may further be authorized to consult with any suitable person it may think fit.

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### Gold Production

According to *The National Revenue Review*, Ottawa, the output of gold in fine ounces in Canada during 1937, which includes the gold bullion from gold mines, gold in blister copper produced in Canadian smelters and gold in ores exported, passed the four million mark for the first time. Preliminary estimates place the 1937 output at 4,054,799 fine ounces which, when valued at \$34.99, the average price for the year in Canadian funds, amounted to \$141,877,000, a gain of \$10,500,000 over 1936.

Increased production was recorded in all provinces except Alberta and Yukon Territory, and near the close of the year Canadian mines were producing gold at the rate of \$400,000 a day. The long established mines maintained their outputs and production from the younger properties continued to increase. About fifteen new properties entered production during the year.

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### Who May Subscribe?

Letters are received from time to time inquiring if only members of The Dominion Association of Chartered Accountants may subscribe to THE CANADIAN CHARTERED ACCOUNTANT. Our Editorial Committee are anxious for all interested in accounting and in our Publication to know that everybody is free to subscribe therefor. As a matter of fact, of the present 3,500 subscribers, about 2,100 are members of the Association; the others are general subscribers.

## LEGAL DECISIONS

[EDITOR'S NOTE: The following are brief summaries of recent decisions of the Canadian Courts as taken, by the kind permission of the Canada Law Book Company, from the *Dominion Law Reports*. In each case reference is made to the volume of the *Reports* where the full judgment may be found. It should be kept in mind that the decisions given may not in every case be final.]

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### Profits—Share in profits additional to wages—Value of shares—Partnership

(*Bussieres v. Canadian Exploration Ltd.*)

Supreme Court of Canada

Profits may exist in kind as well as in cash, and may consist of shares. An employee, entitled to a percentage in the profits of mining properties in connection with which he was employed, may claim such profits out of shares in such transactions realized by his employer, and he is not bound by the nominal value placed on those shares by his employer but may claim the profits based on the actual value of those shares. He is also entitled, in lieu of a transfer of the shares to him in *specie*, to a money judgment for their value.

The mere sharing in profits by a servant or agent does not necessarily create the relationship of a partnership. Where a salary is paid to a person by another in addition to a share in the profits it is strong evidence that the relation between the two is that of master and servant rather than that of partners. One employed at a monthly salary and entitled to a share in the profits but not bound to contribute to the losses is a servant not a partner.—[1938] 1 D.L.R. 257.

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### Promissory notes—Illegal consideration

(*Prudential Exchange Co. v. Edwards*)

Saskatchewan Court of Appeal

Dealings in wheat futures or margins in which no delivery is contemplated are prohibited by s. 231, Cr. Code, and notes given for money loaned for such purposes are founded on illegal consideration and are not enforceable,

except in so far as they may include sums loaned for lawful purposes. The illegality affects notes given in renewal of the original obligation.—[1938] 1 D.L.R. 218.

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**Succession duties — Gifts through corporation — Sales at undervalue**

(*Re Meilicke*)

**Saskatchewan King's Bench**

The transfer *inter vivos* of lands and company shares to a corporation formed for the purpose of acquiring the property, in consideration of shares issued by it which are distributed amongst the children of the transferor, held a mere sham to use the corporation as an agency to effect a gift to the children and that the shares thus given to them are taxable under the *Succession Duty Act*, R.S.S. 1930, c. 37, as amended in 1937. But shares sold to children for a consideration, even though at an undervalue, will not be regarded as a gift of the excess value to be taxable as such; nor are bonds given them as Christmas presents in the ordinary and normal expenditure of the donor, or notes cancelled and located outside of the Province, taxable gifts. The remission, however, of part of the purchase-price of the land sold to a child is taxable as a gift. The penalties under the statute can only be recovered on an information by the Attorney-General; but non-resident beneficiaries are not subject to the requirements of filing returns or to the penalties for not filing them.—[1937] 4 D.L.R. 709.

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**Wills—Deceased child as beneficiary—Right of surviving husband**

(*Re Rake*)

**Manitoba King's Bench**

The effect of s. 30 of the *Wills Act*, 1936 (Man.), c. 52, is to entitle a child predeceasing the testator to share as beneficiary under the will as if he were living. Where two daughters of a testator have predeceased him, the husband to whom they have been alternately married is entitled under the *Devolution of Estates Act*, R.S.M. 1913, c. 54, to share in the estate of both his deceased wives which passed to them under the will.—[1938] 1 D.L.R. 191.

## PROVINCIAL NEWS

### ONTARIO

Following are the results of the examinations of the Institute of Chartered Accountants of Ontario written in December 1937, which were announced by the Council on 27th January 1938. One hundred and eighty-two candidates were successful, of whom eighty-two wrote the Primary, forty-eight the Intermediate, and fifty-two the Final examination.

The prize winners were as follows: *Primary*—first prize, Kenneth W. Lemon, Toronto; second prize, E. D. Berry, Jr., Ottawa; *Intermediate*—first prize, John P. Hudson, Toronto; second prize, D. Rosensweig, Toronto; *Final*—Institute gold medal, A. B. Monteith, Toronto; George Edwards prize—L. C. Crawford, Niagara Falls; W. T. Kernahan prize, W. D. Tamblin, Toronto; E. R. C. Clarkson gold medal, J. A. Hall, Windsor.

The prizes and diplomas will be presented at the mid-winter dinner and reception to new members to be held at the Royal York Hotel on March 3rd. Dr. Robert C. Wallace, Principal and Vice-Chancellor of Queen's University, will be the guest speaker at this dinner.

Following is a complete list of the successful candidates:

*Primary*—J. H. Charnock, Fort William; G. B. Hughes, Stanley G. Jackson, A. C. Madgett, G. H. Richmond, S. G. Simpson, and A. D. Thompson, Hamilton; S. C. Hoare, Kirkland Lake; William D. Caskey, and R. W. Wettlaufer, Kitchener; E. D. Berry, Jr., C. A. Bounsall, E. K. Brunton, P. E. Dupuis, E. A. Leftly, J. R. Lewis, Alan T. Proctor, and C. F. Wilson, Ottawa; Arthur J. Black, Port Arthur; J. S. McKeown, Sudbury; J. H. A'Court, P. H. Ambrose, N. D. Aubin, S. B. Bartlett, C. M. Beattie, P. W. Bennett, J. L. Biddell, T. F. Burton, T. R. Caldwell, William E. Case, Max Cassels, Dixon S. Chant, Max Cohen, A. A. Conlin, H. F. Cumming, C. E. Davidge, Albert Davidson, W. W. Davidson, H. R. Dow, John Duncanson, J. W. Erwin, Sydney Fox, Samuel Garten, S. A. Glick, Henry S. Glover, Maxwell Goldhar, Duncan L. Gordon, Percy Grimson, D. S. R. Hepburn, John W. Herold, C. Houser, W. M. Johnston, L. G. Keith, Louis Kirshenbaum, C. W. Leask, K. W. Lemon, M. A. Leroy, J. A. Little, D. R. MacKay, L. J. MacKenzie,

W. J. Millyard, G. R. McDaniel, E. B. McLeod, Philip L. Nash, J. E. Paterson, D. W. Perrie, W. H. S. Pote, E. W. Pyatt, James W. Ralston, J. M. Read, George Resnick, M. Robertson, R. M. Saunders, Archie Shulman, Harry H. Sivers, St. Elmo V. Smith, N. I. Stone, Bruce C. Willis, and Frank W. Woods, Toronto; T. M. Brown, John B. Clemens, and James Simpson, Windsor.

*Intermediate*—D. B. Snider, Brantford; William F. Martin, Fort Frances; R. C. Cowle, and William H. Huck, Kitchener; Kenneth H. Dunn, and H. E. Roper, London; A. Cameron Burns, Edward L. H. Burpee, and Gordon C. Tilley, Ottawa; Hugh M. Matheson, Sudbury; H. A. Agar, Lloyd G. Arnold, Earl G. Black, Martin W. Burns, A. G. Burton, E. A. Carrothers, R. C. Cavill, Harry E. Clayton, R. J. J. Dallard, George S. Edwards, Alex Fish, Bernard Gordon, E. L. Goodfellow, S. G. Hennessey, R. L. Hepburn, G. F. Hogarth, Raymond Hoyle, MacPherson Hubbell, John P. Hudson, W. J. Hudson, G. K. Hutchings, B. K. Jackson, A. H. Kay, Harvey Millman, G. M. Morrison, H. A. H. Mulin, J. S. McVicar, S. L. Orenstein, Louis I. Papoff, G. F. Plummer, W. G. M. Robinson, D. Rosensweig, S. S. Spiegel, Nathan Stein, A. B. Stokes, L. D. Thomas, J. M. Turnbull, and W. L. Wolstein, Toronto.

*Final*—B. M. Clancy, Brantford; A. W. Parish, Hamilton; D. B. Crawley, London; L. C. Crawford, Niagara Falls; S. E. Bernier, S. R. Brunton, J. F. Harmer, Walter G. Joynt, and E. D. Martin, Ottawa; R. J. McKessock, Sudbury; J. F. C. Andrews, I. A. Bailey, John S. Beatty, G. W. Benson, W. M. Brace, J. A. Campbell, J. D. Campbell, George L. Cole, E. M. Curran, David Fine, C. F. Glennie, N. E. Hamilton, R. B. Dale Harris, S. P. Heiber, Ross O. Holditch, L. E. Lugsdin, W. Ross Lugsdin, Ian Maclean, A. B. Monteith, D. H. Munger, D. J. McClellan, F. Warde McDonald, L. H. Newnham, W. R. O'Loane, R. M. Parkinson, Frank C. Putt, D. D. Ross, C. G. Rounding, John Sears, R. Glen Smith, George H. Spence, E. Manning Sprackman, H. M. Stephens, W. D. Tambllyn, A. L. Tobias, R. E. Waller, J. S. Whitehead, J. Edward Wilson, and J. R. Wright, Toronto; J. A. Hall, and J. D. Green, Windsor; Fred J. Parker, Woodstock.

*Supplementary Examinations*—The following passed in all but one subject in the Final Examination and have been granted a supplementary examination: *Accounting*—Bernard

## PROVINCIAL NOTES

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W. Page, Hamilton; G. E. Wilson, Toronto; *Auditing*—R. J. Hough, Toronto; C. V. Maltby, Fort Frances; *Business Investigations* — D. G. McCaig, Port Colborne; *Economics*—Patrick E. Molloy, London; H. G. Gordon, Donald A. Kidd, R. T. M. LeMay, and Donald E. Strong, Toronto.

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### QUEBEC

The Library Committee, under the Chairmanship of J. Fulton Camelford, has prepared a supplement (February, 1938) to the Library Catalogue published in January, 1937.

In a letter to the members of the Society the Committee draws attention to the fact that the Society has opened files of published prospectuses and published statements of public companies and other organizations, and that those files are available for reference by members and students.

Also in its letter the Committee reminds the members of the Society that in addition to the works listed in the enclosed and in the original catalogue, the Society has in its Library various other references in the form of bound issues of periodicals, The Accountants' Encyclopedia, etc., and that should reference be desired to any subject not covered in the catalogue, the Librarian will be very pleased to receive enquiries as to whether articles on required subjects are available in those volumes.

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### PERSONALS

Messrs. Gilbert and Laird, Chartered Accountants, announce that they have admitted as a partner Mr. John Daniel Sprague, C.A., to practise under the firm name of Gilbert, Laird & Sprague with offices at 309 Electric Railway Chambers, Winnipeg.

Messrs. R. E. Sayce & Co., Chartered Accountants, announce the removal of their offices to 818-819 Vancouver Block, Vancouver, B.C.



## PUBLICATIONS RECEIVED

*Public Accounts of the Province of Alberta for the Year ended March 31, 1937, (The King's Printer, Edmonton, 358 pp.)*

*Public Accounts of the Province of Manitoba for the Year ended 30th April, 1937, (The King's Printer, Winnipeg, 270 pp.)*

*Public Accounts of the Province of Saskatchewan for the Fiscal Year ended April 30, 1937, (The King's Printer, Regina, 424 pp.)*

*Essays in Political Economy (in Honour of E. J. Urwick), Edited by H. A. Innis, (The University of Toronto Press, 1938, 248 pp., \$2.50.)*

*Report of the Auditor General for the Year Ended March 31st, 1937, Vols. I and II, (The King's Printer, Ottawa, \$3.00 per set.)*

*A Statement of Accounting Principles, prepared by Thomas Henry Sanders, Henry Rand Hatfield and Underhill Moore, being a Committee appointed by Haskins & Sells Foundation, Inc., New York; (American Institute of Accountants, 135 Cedar Street, New York, 1938, 156 pp., seventy-five cents.)*

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## BOOK REVIEW

### COST ACCOUNTING—PRINCIPLES AND METHODS

(Second Edition) by Charles Reiteil, Revised by C. E. Johnston,

(Published by *International Textbook Company*, Scranton, Pa.,

1937, cloth, 436 pp., \$3.50

The first few chapters of this book are devoted to the purposes and functions of cost accounting. The authors next proceed to detail the elements of cost and to describe at length their recording and control through the general and cost accounts. The third part of the book deals with process and job-order cost systems, the outline of the latter being further explained by an example worked out in detail. The fourth portion—Chapters XXI to XXVI—covers standard costs, budgetary control and distribution costs. The book closes with a treatise on cost reports for executives and the influence of trade associations in establishing uniform accounting systems in various types of business.

This book is written in clear language almost entirely free from technical terms and its descriptions are made the more comprehensible by the inclusion of numerous illustrative examples: it appears to have been compiled to serve as a text book in the study of cost accounting and a reader would only require some knowledge of bookkeeping to follow and understand it.

In several instances, one method only of recording a certain type of transaction or preparing a statement has been given, when in fact there are several alternative methods used in business practice. The reviewer is of the opinion that it would have been better for the authors to have indicated this to the reader: of course, an experienced instructor using the book would be able to draw attention to this fact.

The outstanding features of the book are the chapters on the control and analysis of distribution and administrative costs, especially as managements today seem to realize the importance of finding these costs in business: some books on cost accounting devote too little space

#### BOOK REVIEW

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to this important phase of the subject. Another good feature of the book is the manner in which it describes the value of cost analyses and the uses to which the various cost statements should be put.

The clarity of expression and explanations of the purposes and value of cost figures and statements serve to make this book thoroughly readable and valuable as a text in the study of cost accounting.

G. MEREDITH SMITH.

Montreal, 17th February 1938.

### TERMINOLOGY DEPARTMENT

The articles in this Department, unless otherwise stated, are originally written by the Chairman of the Terminology Committee and submitted to the members thereof; they are afterwards revised by him after consideration of suggestions made by the members.

If it should be thought that any articles include too much primary or elementary matter, readers are asked to realize that the Committee hopes these articles will be of especial value to Students-in-Accounts; and it is believed that, to impart a thorough understanding too much emphasis cannot be placed on the fundamental principles on which the ideas connoted in the term defined are based.

*(Continued from January issue)*

**Cash Dividend:** A dividend payable to the shareholders of a company in cash, as distinguished from one payable in other ways, e.g., stock, bonds or property. Although dividends from other sources may be payable in cash (e.g. in bankruptcy), this term is only used in connection with company dividends charged against surplus.

**Cash in Bank:** see "Cash."

**Cash in Hand:** see "Cash."

**Caveat:** From the Latin "a warning." A process in a court to stop proceedings; a process served on the registrar of a Land Titles Office giving notice that certain interests attach to specified properties, which can only be held or transferred subject to such interests.

**Caveat Emptor:** "Let the buyer beware" (Latin). A maxim of law indicating that a person must look after his own interests in the purchase of goods and chattels; unless the seller especially warrants them sound and good, he is under no obligation to make a point of or to expose defects.

**Certificate, Auditors':** "A certificate is a written testimony to the truth of a certain fact or facts" (Annandale). The term "Auditors' Certificate" is commonly used with reference to the statutory report to shareholders of companies on the annual accounts; as this report, however, is an expression of opinion, the use of the word "certificate" is of questionable validity. In special investigations, however, it may frequently happen that auditors may give "certificates" as such within the literal meaning of the term.

**Cestui qui trust:** The beneficial owner of property or funds held by a trustee; the party to whom a trustee is accountable.

**Charge:** (n) a debit; (v) to debit.

**Charter-party:** "Deed between shipowner and merchant for hire of ship and delivery of cargo" (Concise Oxford Dictionary).

**Chattels:** Movable possessions.

**C.I.F.:** Abbreviation for "Cost Insurance and Freight," indicating that a quoted price includes insurance and delivery to a point stated, beyond which such charges are the responsibility of the consignee.

**Circulating Assets:** Another term for "floating" or "current" assets, those acquired for the purpose of resale and those raised in the stages of their conversion to cash, and also cash; contrasted with "Fixed" assets, viz., those acquired for the purpose of carrying on business.

**Circulating Capital:** The amount of the capital of a business required for circulating assets.

**Clearing, Clearing House:** "Clearing" is a procedure adopted to simplify settlements as between parties or businesses with common interests who have claims for or against each other, and is practised by an organization known as a "Clearing House," the duty of which is to offset these claims and reduce their effect on each member to its net figures for the purpose of settlements. Clearing houses are used by banks, stock brokers, grain houses, etc.

**Closing Entries:** Entries made at the end of an accounting period for the purpose of closing and adjusting nominal accounts and setting up profit and loss and ancillary accounts for the year.

**Collateral Security:** Collateral means "side by side or parallel." Thus a collateral security is one which co-exists with and runs parallel or side by side with another security, as distinguished from "direct" security as in the case of a Mortgage.

**Combined Balance Sheet:** see "Consolidated Balance Sheet."

**Commission:** Remuneration for services, the amount of which is related to the volume of or profit from the business involved, usually by way of percentage.

**Common Stock:** The "ordinary" shares of a company (so called in Great Britain), as contrasted with "preferred" shares; those shares, the holders of which are entitled to

participate in the residue of earnings after all prior rights have been satisfied.

**Company:** A term popularly used to denote an incorporate body. Its real meaning, however, is wider than this; the following is quoted from Annandale's dictionary: "A number of persons united for performing or carrying on anything jointly, as some Commercial enterprise, the term being applicable to private partnerships or to incorporated bodies; a firm (but this word usually implies fewer partners than *Company*); the members of a firm whose names do not appear in the style or title of the firm: usually contracted when written (Smith & Co)."

**Comparative Statement:** Any balance sheet, revenue account or statistical statement which also shows in convenient form the corresponding figures as of some prior date or period for purposes of comparison.

**Completed Audit:** See "Audit and Auditing."

**Confirmation:** The act of settling, establishing, putting past doubt, verification. "Direct confirmation" is an expression used in auditing in connection with the obtaining of verification from other than the clients' records of assets held or balances of accounts, e.g., bank accounts or customers' debit balances.

**Consignment:** A consignment is a shipment of goods from one party called the consignor to another party called the consignee with the understanding that the consignee will sell the goods for the best price obtainable and will remit the selling price less any costs and his commission to the consignor. The consignor retains title to the goods until they are sold.

**Consolidated Balance Sheet:** The balance sheet of a company with subsidiaries or controlled companies in which the assets and liabilities of the subsidiaries or controlled companies have been merged together, with those of the parent company, with the object of obtaining a view of the financial position of the group as a whole. Also called "Combined Balance Sheet."

## STUDENTS' DEPARTMENT

R. G. H. SMAILS, C.A., Editor

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### NOTES AND COMMENT

A recent publication of interest to all students of accounting whatever their age, experience or qualifications, is Sanders, Hatfield and Moore, "A Statement of Accounting Principles" (American Institute Publishing Co. 75 cents). This small volume of 138 pages is the outcome of an enquiry initiated by the Haskins & Sells Foundation Inc. into the principles and conventions employed by accountants in the United States in the preparation of financial statements. It reveals the existence of a surprising degree of uniformity in some respects and a serious lack of uniformity in others—and where practice varies it ventures to point the most desirable convention for general adoption. Few people familiar with the difficulties which face the accountant in his computation of periodic income will deny the urgent need of some such enquiry, since it is only by periodical stocktakings of this kind that the accounting art can hope to progress to the point where, eventually, accounting statements will achieve a comparative validity. Many of our readers will wish that a parallel study could be made of Canadian practice, for it is clear that Canadian accounting technique is in some degree differentiated from that in the United States by British influences and traditions.

\* \* \*

One specific example of the present lack of a uniform accounting convention lies in determination of the point of time at which the trading profit is realized on an instalment sale. Roughly speaking there are two divergent practices; one takes credit for the whole of the profit at the moment the contract is made, the other takes credit for profit only as cash is paid. Suppose an article costing \$400 is sold on January 1 for \$500 (excluding interest and expense loading) the terms being cash down \$50, and the balance in nine monthly instalments of \$50 each. By the first practice the entry would be:

January 1. Instalment Accounts Receivable	\$500.00	
To Cost of Goods Sold.....		\$400.00
To Profit Realized .....		100.00

By the second practice the entry would be:

January 1. Instalment Accounts Receivable	\$500.00	
To Cost of Goods Sold.....		\$400.00
To Profit Realized		
(50/500 x 100) .....		10.00
To Profit Suspense .....		90.00

and on February 1 and each month thereafter as the current instalment of \$50 was paid:

Profit Suspense .....	\$10.00	
To Profit Realized .....		\$10.00

It is difficult to discern any logic in this second method since there is no rational basis for assuming any correlation between the amount of a periodic cash payment and the realization of a profit. The total risk of loss on an instalment sale like that on any other sale should be protected by creation at the date of the sale of a bad debts reserve proportioned to the sale and the risk. That this second method persists in practice is evidenced by the fact that the United States Bureau of Internal Revenue expressly sanctions its use for the computation of taxable income.<sup>1</sup> The only merit of the method lies in the fact that it reduces the "profit" shown by the books to a figure which perhaps can safely be distributed in the form of cash dividends. But this is scarcely a sufficient justification for an accounting convention since it prostitutes the accounting art quite unnecessarily to considerations of business finance and policy.

Accounting statements can probably never hope to attain absolute validity. So long as practice diverges in the manner of this illustration they lack even relative or comparative validity.

<sup>1</sup>Any corporation receiving less than 30 per cent. of the selling price in the tax year may report income as the cash is received in payment, in the ratio of gross profit to total sales price.



## STUDENTS' ASSOCIATION NOTES

### PROVINCE OF QUEBEC

The members of the Chartered Accountants Students' Society of the Province of Quebec are turning their thoughts again to their studies now that the pressure of business is easing.

It is announced that Test Examinations will be held in the latter half of March, and the discussion of the results during the first days of April. Two papers, one in Accounting and one in Auditing, will be presented.

Another Study Group under the leadership of J. R. Hendry, B.Com., C.A., has commenced its meetings. The subject for discussion is Bankruptcy and Liquidation Procedure.

The Social Committee is planning to have a few informal gatherings during the spring. While most of our members are getting their exercise on skis just now, the Annual Tennis Tournament is to be our next athletic event.

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## PROBLEMS AND SOLUTIONS

Solutions presented in this section are prepared by a practising chartered accountant of the Institute from whose examinations the problem is taken and represent his views and opinions. They are designed not as models for submission to the examiner but rather as such discussion and explanation of the problem as will make its study of benefit to the student. Discussion of solutions presented is cordially invited.

### PROBLEM I.

#### THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SASKATCHEWAN.

INTERMEDIATE EXAMINATIONS—NOVEMBER, 1937.

#### SECOND PAPER IN ACCOUNTANCY. QUESTION 3.

Franks and Arnold entered into a Joint Venture for the disposition of \$75,000.00 of surplus merchandise. Franks financed the venture and undertook to buy the merchandise for 6% on the net cost of goods. Arnold undertook the selling for a commission of 8% on sales, profits or losses to be shared equally.

Franks paid for the merchandise less 5% discount for cash and advanced \$1,000.00 to Arnold for expenses. He received from Arnold cheques on account for \$18,750.00, \$35,000.00 and \$11,250.00. Arnold's expenses were: Travel \$2,100.00, Freight \$1,000.00, Rent \$600.00, Advertising \$1,500.00, Sundries \$300.00. He sold the whole of the stock for \$107,500.00, the proceeds being paid into his own bank account. Show the transactions as they will appear in the ledgers of Franks and Arnold respectively and prepare the account showing the results of the venture.

SOLUTION

FRANKS' LEDGER

JOINT VENTURE WITH ARNOLD

<i>Dr.</i>		<i>Cr.</i>	
To Cash: Purchase of Merchandise .....	\$ 71,250.00	By Cash: Remittance from Arnold .....	\$ 18,750.00
To Commission; 9% on Purchase of Goods..	4,275.00	By Cash: Remittance from Arnold .....	35,000.00
To Cash: Advance to Arnold .....	1,000.00	By Cash: Remittance from Arnold .....	11,250.00
To Profit and Loss: half profit of Joint Venture .....	8,937.50	Balance due from Arnold .....	20,462.50
	<u>\$ 85,462.50</u>		<u>\$ 85,462.50</u>

ARNOLD'S LEDGER

JOINT VENTURE WITH FRANKS

To Cash Expenses:		By Cash from Franks .....	\$ 1,000.00
Travel .....	\$2,100.00	By Cash: Sales .....	107,500.00
Freight .....	1,000.00		
Rent .....	600.00		
Advertising .....	1,500.00		
Sundries .....	300.00		
	<u>\$ 5,500.00</u>		
To Cash: Remitted to Franks .....	18,750.00		
To Cash: Remitted to Franks .....	35,000.00		
To Cash: Remitted to Franks .....	11,250.00		
To Commission: 8% of Sales \$107,500.00 ..	8,600.00		
To Profit and Loss: half share of profit of Venture .....	8,937.50		
Balance due to Franks .....	20,462.50		
	<u>\$108,500.00</u>		<u>\$108,500.00</u>

## STUDENTS' DEPARTMENT

FRANKS & ARNOLD  
JOINT VENTURE ACCOUNT

<i>Dr.</i>		<i>Cr.</i>	
To Purchase of Merchandise .....		Sales .....	\$107,500.00
Expenses paid by Arnold:			
Travelling .....	\$2,100.00		
Freight .....	1,000.00		
Rent .....	600.00		
Advertising .....	1,500.00		
Sundries .....	300.00		
			5,500.00
Arnold's Commission on Sales			
8% of \$107,500.00 .....			8,600.00
Franks' Commission on purchases			
6% on \$71,250.00 .....			4,275.00
Profit \$17,875.00:			
Divided: Franks—one half .....			8,937.50
Arnold—one half .....			8,937.50
			17,875.00
			<u>\$107,500.00</u>

MARCH, 1938.

PROBLEM II.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF  
SASKATCHEWAN.

FINAL EXAMINATIONS—NOVEMBER, 1937.

GENERAL ACCOUNTING. QUESTION 1.

John Sharp carries on an Insurance Adjusters business. His head office is located in Saskatoon, with branch offices at Prince Albert and Regina. All the bookkeeping is done at head office and all accounts for fees are rendered and collected by head office.

From the following trial balances and other information supplied, you are required to prepare an interim statement showing results of operations for each department, each branch and the business as a whole for the interim six month period ended June 30th, 1937, also capital account and balance sheet as of that date. Prepare the statement of operations in a concise manner and so that comparisons may be made at a glance.

POST CLOSING TRIAL BALANCE DECEMBER 31st, 1936.

	Debit	Credit
Cash in Bank, Savings .....	\$ 200.00	
Bank Overdraft, General Account .....		\$ 1,200.00
Cash on Hand .....	15.00	
Accounts Receivable (Fees and Expenses billed Companies) .....	5,640.00	
Advances to Adjusters .....	1,250.00	
Sundry Accounts Receivable .....	45.00	
Unbilled Fees .....	4,080.00	
Unbilled Disbursements .....	1,470.00	
Accounts Payable .....		240.00
General Agents Accounts, Unsettled .....		75.00
Furniture and Equipment .....	5,000.00	
Reserve for Depreciation .....		3,000.00
Reserve for Bonus (Prince Albert Branch) .....		205.00
Capital .....		12,980.00
	<u>\$17,700.00</u>	<u>\$17,700.00</u>

The following facts should be noted:

1. Adjusters are paid advances to cover their expenses and other disbursements, making detailed returns twice monthly accounting for same.
2. All adjusters are employed and salaries are paid direct to them by head office.
3. Regina branch is in charge of one of the adjusters resident at that point and expenses of the branch office are included in his returns to head office.
4. Prince Albert branch has only one adjuster. Branch office expenses are dealt with the same as Regina. In the case of this branch, the adjuster receives, in addition to salary, 50% of the net

## STUDENTS' DEPARTMENT

profits of the branch as a bonus. (Net profits are fees credited to the branch less direct expenses charged to the branch.) This bonus is not chargeable as an expense to the branch.

5. Head office has two departments "Fire" and "Casualty".

6. Certain expenses are treated as "Fixed" and certain others as "Variable" and distributed as follows:

	<i>Fixed</i>	<i>Variable</i>
"Fire" Department .....	40%	50%
"Casualty" Department .....	40%	20%
Regina Branch .....	20%	30%

7. An amount of \$30.00 per month is deposited in a bank savings account to provide for head office and Regina branch municipal business taxes, a charge to taxes account for the same amount being made each month.

8. Municipal business taxes have been paid in full for the year.

9. Allow 10% per annum depreciation on office furniture and fixtures, this charge to be included under the heading of "Fixed Expenses".

10. Unbilled fees are allocated as follows:

	1937	Fire	Casualty	Prince Albert	Regina	Total
January 1st ....		\$1,600.00	\$ 350.00	\$200.00	\$1,930.00	\$4,080.00
June 30th .....		1,350.00	1,150.00	840.00	1,780.00	5,120.00

The following is the Trial Balance of the General Ledger as at June 30th, 1937:

	<i>Debits</i>	<i>Credits</i>
Fees—Fire .....	\$4,650.00	
Casualty .....	3,580.00	
Prince Albert .....	2,220.00	
Regina .....	6,700.00	\$17,150.00
<i>Expenses:</i>		
Salaries, Fire .....	2,000.00	
Casualty .....	1,800.00	
Prince Albert .....	900.00	
Regina .....	3,000.00	
"Variable" .....	70.00	
"Fixed" .....	600.00	\$ 8,370.00
Taxes, Municipal Prince Albert .....	50.00	
"Fixed" .....	180.00	230.00
Interest and Exchange—"Variable" ....		80.00
Audit, Monthly "Fixed" .....		180.00
Agencies Expense Fire .....	20.00	
Prince Albert .....	60.00	
Regina .....	75.00	
"Variable" .....	150.00	305.00
Rent, Prince Albert .....	300.00	
Regina .....	450.00	
"Fixed" .....	600.00	1,350.00

# THE CANADIAN CHARTERED ACCOUNTANT

Postage and Telephone			
Prince Albert	80.00		
Regina	120.00		
"Variable"	250.00	450.00	
<hr/>			
Travelling, Fire			
Casualty	60.00		
Prince Albert	40.00		
Regina	140.00		
"Variable"	70.00		
	500.00	810.00	
<hr/>			
General Expenses			
Prince Albert	300.00		
"Variable"	1,500.00	1,800.00	
<hr/>			
Cash in Bank, Savings		30.00	
Bank Overdraft, General Account			495.00
Cash on Hand	15.00		
Accounts Receivable (Fees and Expenses Billed)	4,500.00		
Advances to Adjusters	1,400.00		
Unbilled Fees	4,080.00		
Unbilled Disbursements	1,800.00		
Accounts Payable			30.00
General Agents' Accounts Unsettled	25.00		
Furniture and Equipment	5,000.00		
Reserve for Depreciation			3,000.00
Reserve for Bonus, Prince Albert Branch			205.00
Bonus Payments, Prince Albert Branch	455.00		
Reserve for Business Taxes Account	170.00		
J. Sharp, Income Taxes Paid	310.00		
J. Sharp, Drawings Account	2,500.00		
Capital		12,980.00	
		<hr/>	<hr/>
		\$33,860.00	\$33,860.00
		<hr/>	<hr/>

## SOLUTION

### Preliminary Note.

In preparing this solution the main points that are required to be kept in mind appear to be the following:

1. Set up of Financial Statement
2. Adjustment of Fees Outstanding
3. Adjustment of Prepaid Taxes
4. Arriving at share of profits for Prince Albert Branch

It will be noted from the Statement of Operations that separate headings are shown taking care of "District" and "Indirect Expenses." This enables the full total of each individual expense to be shown in the total column. The totals under these headings (Direct and Indirect) are then apportioned between Branches as required, in total, but of course are not extended to the total column.

It will be noted from the question that included in the trial balance under Expenses are shown Municipal Taxes and later a debit to Reserve for Business Taxes Account. It is assumed that it was intended that Business Taxes represent Municipal Business Taxes and the solution deals with them accordingly.

**JOHN SHARP**

STATEMENT OF OPERATIONS FOR SIX MONTH PERIOD  
ENDED JUNE 30, 1937.

**TOTAL**  
**\$17,150.00**  
**1,040.00**

Fees Received .....	\$4,650.00	\$3,580.00	\$6,700.00	\$2,220.00	\$17,150.00
Add: Increase in Fees Unbilled .....		800.00		640.00	1,040.00
Deduct: Decrease in Fees Unbilled .....			150.00		
	<u>\$4,400.00</u>	<u>\$4,380.00</u>	<u>\$6,550.00</u>	<u>\$2,860.00</u>	<u>\$18,190.00</u>
EXPENSES:					
Fixed	Variable				
Salaries ..... \$ 600.00	\$ 70.00	\$1,800.00	\$3,000.00	\$ 900.00	\$ 8,370.00
Taxes, Municipal .....				25.00	200.00
Interest and Exchange .....	80.00				80.00
Audit .....					180.00
Agencies Expense .....	150.00				305.00
Rent .....	20.00			60.00	1,350.00
Postage and Telephone .....				300.00	450.00
Travelling .....	250.00			80.00	120.00
General Expenses .....	500.00	40.00		140.00	810.00
Depreciation Furniture and Fixtures ..	1,500.00			300.00	1,800.00
	<u>250.00</u>				250.00
	<u>\$1,805.00</u>	<u>722.00</u>	<u>361.00</u>		
	<u>\$2,550.00</u>	<u>510.00</u>	<u>765.00</u>		
		<u>4,077.00</u>	<u>4,841.00</u>	<u>1,805.00</u>	<u>13,795.00</u>
		<u>323.00</u>	<u>1,709.00</u>	<u>1,055.00</u>	<u>4,395.00</u>
	<u>\$4,400.00</u>	<u>\$4,380.00</u>	<u>\$6,550.00</u>	<u>\$2,860.00</u>	<u>\$18,190.00</u>
Profit on Operations for period .....					
CAPITAL ACCOUNT					
Balance January 1st, 1937 .....					\$12,980.00
Add: Profit for six months .....	\$4,395.00			\$3,867.50	
Deduct: Withdrawals .....	527.50			2,810.00	
					1,057.50
Net Profit for period .....	<u>\$3,867.50</u>				<u>\$14,037.50</u>
Profit and Loss Account					
Profit on Operations .....					
Reserve for Bonus, Prince Albert .....					
Net Profit for period .....					



THE CANADIAN CHARTERED ACCOUNTANT

Problem 1

JOHN SHARP

BALANCE SHEET AS AT JUNE 30, 1937.

ASSETS		LIABILITIES	
Cash in Bank "Savings" Account ..	\$ 30.00	Bank Overdraft "General" Account .....	\$ 495.00
Cash on Hand .....	15.00	Accounts Payable .....	30.00
Accounts Receivable .....	4,500.00	Bonus Payable .....	277.50
General Agents' Accounts Unsettled ..	25.00	Capital .....	14,037.50
Unbilled Fees .....	5,120.00		
Unbilled Disbursements .....	1,800.00		
Advances to Adjusters .....	1,400.00		
Prepaid Taxes .....	200.00		
Furniture and Equipment .....	5,000.00		
Less: Reserve for Depreciation ....	3,250.00		
	<u>\$14,840.00</u>		<u>\$14,840.00</u>
ADJUSTMENTS			
Reserve for Bonus, January 1st .....	\$205.00	Reserve for Business Taxes—6 mos. @ \$30.00	\$180.00
Share of Profits .....	527.50	Debit Balance at June 30th .....	170.00
Amount Paid .....	732.50	Taxes paid H.O. and Regina .....	\$350.00
	455.00		
Amount Payable June 30th .....	<u>\$277.50</u>	H. O. and Regina Prepaid Taxes .....	\$175.00
<i>Municipal Taxes:</i>		In addition—Prince Albert Taxes paid ....	\$50.00
Savings Account January 1st .....	200.00	Prince Albert Prepaid Taxes .....	\$25.00
Deposited, six months @ \$30.00 per mth. .	180.00		
Savings Account June 30th .....	380.00		
Taxes paid from Savings .....	30.00		
	<u>\$350.00</u>		

